

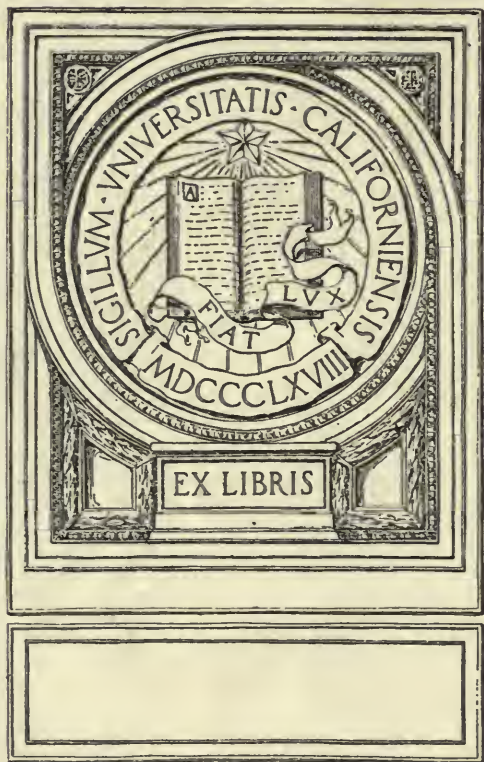
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Supplementary Exercises for Schools of Accountancy
and Business Administration



Supplementary Exercises for Schools of Accountancy and Business Administration

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Boston Young Men's Christian Association*

Dept. of
Commerce

ASSOCIATION PRESS

NEW YORK: 347 MADISON AVENUE

1920

HF 5661
T38

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Young Men's Christian Associations

TO YOUNG
MEN'S CHRISTIAN
ASSOCIATIONS

FOREWORD

As an aid to Associations desiring to conduct courses in Accountancy, the Commission offers this series of exercises prepared by Alfred J. Thompson of the Boston Young Men's Christian Association, in addition to the synopsis of class sessions for the first year, as given in Syllabus B-17.

These exercises are not new or untried, but are the product of seven years' experience in a successful school of commerce in a large Association. They may, therefore, be used with full confidence in their practical value.

The Commission realizes that questions will inevitably arise in connection with these outlines, and welcomes criticisms and suggestions. It stands ready to explain any points submitted for judgment. Address Executive Secretary, 347 Madison Avenue, New York, N. Y.

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The following problems are to be posted to ledger accounts, four accounts to a page, and are designed to show, in a simple manner and in double entry form, the relations of the accounts to each other.

EXERCISE A

"Student," Proprietor

- April 1. "Student" commences business this day and deposits in his bank \$5,000. (Debit "Cash" \$5,000, credit account with yourself "Capital" \$5,000.)
2. Purchased Mdse. for cash \$3,000. (Debit "Purchases," credit "Cash.")
3. Sold Mdse. for cash \$125. (Debit "Cash," credit "Sales.")
8. " " " " \$600.
10. " " " " \$525.
11. Bought Mdse. for cash \$700.
15. Sold Mdse. for cash \$750.
20. " " " " \$260.
25. " " " " \$480.
30. " " " " \$183.

Make Trial Balance on journal paper.

Questions:

1. If the selling price is 120% of the cost, what is the cost of goods sold?
2. What is the cost of the goods unsold?
3. What is the profit on the goods sold?

EXERCISE B

J. T. Brooks, Proprietor

- May 1. Mr. Brooks commences business by depositing \$10,000.
2. Purchased for cash, Mdse. \$9,000.
5. Sold for cash, Mdse. \$5,000.
10. " " " " \$6,000.
11. Bought for cash, Mdse. \$3,000.
13. " " " " \$2,000.
16. Sold " " " \$4,000.
17. Bought " " " \$8,000.
20. Sold " " " \$2,200.
25. " " " " \$4,150.
26. Bought " " " \$2,950.
31. Sold " " " \$1,340.
31. Make Trial Balance.

The cost of goods on hand May 31, per inventory, is \$6,798. Find the cost of goods sold and the percentage of profit to sales.

EXERCISE C

"Student," Proprietor

- June 1. "Student" commences business this day and deposits \$7,000 in the Security National Bank. (Debit "Cash," credit an account headed with your own name followed by "Capital.")
- Bought of Bacon & Co. to be paid for in ten days, Mdse. \$10,000. (Open an account with "Bacon & Co." and credit it \$10,000. Debit Purchases.)
3. Sold for cash, Mdse. \$1,000.
4. " " " " 800.
8. " " " " 1,500.

10. Sold to Marvin & Co. to be paid for in 10 days, Mdse. \$2,000. (Open an account with "Marvin & Co.," and debit is \$2,000. (Credit Sales.)
11. Paid Cash to Bacon & Co. for bill of June 1.
12. Sold for cash, Mdse. \$1,260.
Bought of Bacon & Co. at 10 days, Mdse. \$7,250.
15. Sold to Marvin & Co. at 10 days, Mdse. \$3,000.
18. Sold for cash, Mdse. \$2,480.
19. " " " " \$2,000.
20. Received cash of Marvin & Co. for bill of June 10.
22. Paid cash to Bacon & Co. for bill of June 12.
25. Received cash of Marvin & Co. for bill of June 15.
28. Bought of Bacon & Co. at 10 days, Mdse. \$3,400.
30. Sold Marvin & Co. at 10 days, Mdse. \$3,500.
Make Trial Balance.

Questions: If the profit is 25% of the sales, what is the cost of goods sold? What is the cost of the goods on hand?

EXERCISE D

- July
1. "Student" commences business by depositing in the Security National Bank, \$8,000.
 2. Purchased a stock of goods for cash \$6,000.
 3. Bought of Daniels & Herrick, Mdse. at 10 days, \$2,500.
 5. Sold to Martin & Co. at 10 days, Mdse. \$425.
 8. Cash sales of Mdse. \$210.
 9. Sold for cash to Lee & Co., Mdse. \$260.
 10. " " " " Naman & Gooch, Mdse. \$850.75.
 12. Sold to Martin & Co. at 10 days, Mdse. \$728.60.
 13. Paid cash to Daniels & Herrick for bill of July 3.
 15. Received cash from Martin & Co. for bill of July 5.
 16. Paid A. W. Marsh, clerk, \$15. (Open an account with "Expense," and debit it for the \$15. Credit Cash.)
 18. Sold Martin & Co. for their note at 10 days, Mdse. \$2,150. (Open an account with "Notes Receivable" and debit it with \$2,150. Credit Sales.)
 22. Paid A. W. Marsh, clerk, \$15.
Received cash of Martin & Co. for bill of July 12.
Sold White & Benjamin, Mdse. for their note at 20 days, \$267.
 23. Bought of Daniels & Herrick for my note at 10 days, Mdse. \$450.75. (Open an account headed "Notes Payable," and credit it for \$450.75. Debit Purchases.)
 28. Paid cash to J. B. Emerson, express charges for the month on goods sold, \$18. (Debit Expense.)
Received cash of Martin & Co. for their note of July 18.
 31. Student withdraws, for personal use, cash \$50. (Debit "Student's Capital" account.)
 31. Make Trial Balance.

EXERCISE E (MODEL)

January 1, 1915

A. W. Swenson commences business by depositing \$10,500 in the National Shawmut Bank.

January 2.

Hired store, No. 1492 Columbus Ave., of M. Holmberg and paid him \$125 for rent, one month in advance.

January 3.

Bought for cash of the Baker Furniture Co. office and store furniture, as per bill, \$260.

January 5.

Bought of the Simmons Hardware Co., to be paid for in 10 days, Mdse. as per invoice, \$1,245.60.

January 8.

Bought of the Ames Plow Co. to be paid for in 10 days, Mdse., as per invoice, \$1,540.90.

January 11.

Bought of the Globe Nail Co. at 30 days, Mdse. \$428.75.

January 13.

Bought of the Taunton Stove Co. at 30 days, Mdse. \$642.80.

January 15.

Paid cash to the Simmons Hardware Co. for bill of January 5, less 2% discount.
Bought of Dame, Stoddard & Co. at 30 days, cutlery, as per invoice, \$460.75.

January 18.

Paid cash to the Ames Plow Co. for bill of January 8, less discount 3%.

January 19.

Sold to J. C. Atwood at 10 days, Mdse., as per bill, \$140.60.

January 21.

Cash sales of Mdse. to date \$170.50.

January 22.

Sold to Bowers & Co. on account, Mdse. \$346.50. (In this problem if no term of credit is mentioned, 30 days is to be understood.)

January 23.

Cash sales to date \$210.90.

January 25.

Sold to J. P. Caldwell, Mdse., on account, \$160.25.

January 26.

Bought of the Piper Mfg. Co. for my (Swenson's) note at 20 days, Mdse., as per invoice, \$1,140.60.

January 27.

Sold Mdse. to L. G. Stetson for his note at 30 days, \$340.
Cash sales to date, \$290.34.
The National Shawmut Bank has discounted L. G. Stetson's note, and has placed the net proceeds to my credit. (Net proceeds \$338.30, discount \$1.70.)

January 28.

Sold Burton & Holmes, Mdse. on account, \$460.80.

January 29.

Cash sales of Mdse. to date \$75.80.
J. C. Atwood notifies Mr. Swenson that he cannot pay his bill of January 19 and offers his note at 30 days. Mr. Swenson agrees to take this note, providing the note is made to cover the debt and 30 days' interest, which is accordingly done.

January 30.

Mr. Swenson withdraws \$100, which is to be considered as payment for his services.
Paid Phillip Lee, salesman, for one month, \$80.

Required:

- (a) Journal entries for all transactions.
- (b) Ledger Accounts.
- (c) Trial Balance.
- (d) Profit and loss statement.
- (e) Balance Sheet.
- (f) Closing entries.

Merchandise inventory January 30, 1915, taken at cost, \$3,891.40.

January 1, 1915.

1	Cash	10,500 00	
3	A. W. Swenson Mr. Swenson commences business this day and deposits \$10,500. in the National Shawmut Bank.		10,500 00
	2		
4	Expense	125 00	
1	Cash Paid M. Holmberg rent of store one month in advance.		125 00
	3		
2	Furniture and Fixtures	260 00	
1	Cash Bought of the Baker Furniture Co. office and store furniture as per invoice.		260 00
	5		
4	Purchases	1,245 60	
2	Simmons Hardware Co. Bought Mdse. at 10 days per invoice.		1,245 60
	8		
4	Purchases	1,540 90	
2	Ames Plough Co. Bought Mdse. at 10 days per invoice.		1,540 90
	11		
4	Purchases	428 75	
2	Globe Nail Co. Bought Mdse. as per invoice.		428 75
	13		
4	Purchases	642 80	
3	Taunton Stove Co. Stoves as per invoice.		642 80
	15		
2	Simmons Hardware Co.	1,245 60	
1	Cash		1,220 69
4	Purchase Discount Paid bill of Jan. 5 less 2% discount.		24 91
	15		
4	Purchases	460 75	
3	Dame, Stoddard & Co. Cutlery as per invoice.		460 75
	18		
2	Ames Plough Co.	1,540 90	
1	Cash		1,494 68
4	Purchase Discount Paid bill of Jan. 8 less 3% discount.		46 22
	19		
1	J. C. Atwood	140 60	
3	Sales Sold Mdse. at 10 days.		140 60

January 21, 1915.

1	Cash	17050	
3	Sales		17050
	Cash sales to date.		
	22		
1	Bowers & Co.	34650	
3	Sales		34650
	Sold Mdse. on account.		
	23		
1	Cash	21090	
3	Sales		21090
	Cash sales to date.		
	25		
1	J. P. Caldwell	16025	
3	Sales		16025
	Sold Mdse. on account.		
	26		
4	Purchases	1,14060	
3	Notes Payable		1,14060
	Bought of Piper Mfg. Co. Mdse. as per invoice for my note at 20 days!		
	27		
2	Notes Receivable	34000	
3	Sales		34000
	Sold Mdse. to L. G. Stetson for his note at 30 days.		
	27		
1	Cash	29034	
3	Sales		29034
	Cash sales to date.		
	27		
1	Cash	33830	
4	Interest	170	
2	Notes Receivable		34000
	Discounted L. G. Stetson's note at National Shawmut Bank.		
	28		
1	Burton & Holmes	46080	
3	Sales		46080
	Sold Mdse. on account.		
	29		
1	Cash	7580	
3	Sales		7580
	Cash sales to date.		
	29		
2	Notes Receivable	14130	
4	Interest		70
1	J. C. Atwood		14060
	Received of J. C. Atwood note at 30 days to include bill of Jan. 19 \$140.60 with 30 days interest added 70 \$141.30		

January 30, 1915.

4	Expense	18000	
1	Cash		18000
3	A. W. Swenson withdrew for services \$100.00		
	Paid Phillip Lee, salesman, salary for one month	80.00	
		<u>\$ 180.00</u>	
Closing Entries January 30, 1915.			
2	Inventory	3,891.40	
4	Purchase Discount	7113	
3	Sales	2,195.69	
4	Profit & Loss		6,158.22
	To transfer balances of above accounts to Profit & Loss account.		
	30		
4	Profit & Loss	5,765.40	
4	Expense		305.00
4	Interest		1.00
4	Purchases		5,459.40
	To transfer balances of above accounts to Profit & Loss account.		
	30		
4	Profit & Loss	392.82	
3	A. W. Swenson, Capital		392.82
	To close Profit & Loss account and to transfer the net profit to the proprietor's account.		

Cash

1915				1915							
Jan.	1		J 1	10,500	—	Jan.	2		J 1	125	—
	21		J 2	170	50		3		J 1	260	—
	23		J 2	210	90		15		J 1	1,220	69
	27		J 2	290	34		18		J 1	1,494	68
	27		J 2	338	30		30		J 3	180	—
	29	8305.47	J 2	75	80		30	Balance		8,305	47
				11,585	84					11,585	84
Feb.	1	Balance		8,305	47						
				<i>J. C. Ostwood</i>							
1915 Jan.	19		J 1	140	60	1915 Jan.	29	note	J 2	140	60
				<i>Bowers & Co.</i>							
1915 Jan.	22		J 2	346	50						
				<i>J. P. Caldwell</i>							
1915 Jan.	25		J 2	160	25						
				<i>Burton & Holmes</i>							
1915 Jan.	28		J 2	460	80						

Notes Receivable

¹⁹¹⁵ Jan. 27			J 2	340 —	¹⁹¹⁵ Jan. 27		J 2	340 —
29	141.30		J 2	141 30				
¹⁹¹⁵ Jan. 30			J 3	Inventory 3891 40				
¹⁹¹⁵ Jan. 3			J 1	Furniture & Fixtures 260 —				
¹⁹¹⁵ Jan. 15			J 1	Simmons Hardware Co. 1245 60	¹⁹¹⁵ Jan. 5		J 1	1245 60
¹⁹¹⁵ Jan. 18			J 1	Ames Plough Co. 1540 90	¹⁹¹⁵ Jan. 8		J 1	1540 90
				Globe Nail Co. ¹⁹¹⁵ Jan. 11			J 1	428 75

Taunton Store Co.

				1915 Jan. 13	J 1	642 80	
				1915 Jan. 15	J 1	460 75	
				1915 Jan. 26	J 2	1,140 60	
				1915 Jan. 1	J 1	10,500 —	
				1915 Jan. 30	J 3	392 82	
1915 Jan. 30	Balance		10,892 82			10,892 82	
			10,892 82			10,892 82	
				Feb. 1	Balance	10,892 82	
				1915 Jan. 19	J 1	140 60	
				21	J 2	170 50	
				22	J 2	346 50	
				23	J 2	210 90	
				25	J 2	160 25	
				27	J 2	340 —	
				27	J 2	290 34	
				28	J 2	460 80	
				29	J 2	75 80	
			2,195 69	29	2195.69	2,195 69	
1915 Jan. 30	Bal. to P.L. J 3	2,195 69					

Purchases.

1915						1915									
Jan	5		J	1	1,245	60	Jan.	30	Bal. to P&L	J	3	5,459	40		
	8		J	1	1,540	90									
	11		J	1	428	75									
	13		J	1	642	80									
	15		J	1	460	75									
	26	5459.40	J	2	1,140	60									
					5,459	40						5,459	40		
<i>Expense</i>															
1915	Jan.	1		J	1	125	—	1915	Jan.	30	Bal. to P&L	J	3	305	—
		30		J	3	180	—								
						305	—							305	—
<i>Purchase Discount.</i>															
1915	Jan.	30	Bal. to P&L	J	3	71	13	1915	Jan.	15		J	1	24	91
										18	71.13	J	1	46	22
						71	13							71	13
<i>Interest.</i>															
1915	Jan.	27		J	2	170	—	1915	Jan.	29		J	2	70	—
										30	Bal. to P&L	J	3	1	—
						170	—							170	—
<i>Profit & Loss.</i>															
1915	Jan.	30	Sundries	J	3	5,765	40	1915	Jan.	30	Sundries	J	3	6,158	22
		30	Bal. to Prop.	J	3	392	82							6,158	22
						6,158	22							6,158	22

A. W. Swenson.
 Trial Balance, January 30, 1915.

L.P.			
1	Cash	8,305 47	
1	Bowers & Co.	346 50	
1	J. P. Caldwell	160 25	
1	Burton & Holmes	460 80	
2	Notes Receivable	141 30	
2	Furniture and Fixtures	260 —	
2	Globe Nail Co.		428 75
3	Taunton Stove Co.		642 80
3	Dame, Stoddard & Co.		460 75
3	Notes Payable		1,140 60
3	A. W. Swenson, Capital		10,500 —
3	Sales		2,195 69
4	Purchases	5,459 40	
4	Expense	305 —	
4	Purchase Discount		71 13
4	Interest	1 —	
		15,439 72	15,439 72

A. W. Swenson
 Profit and Loss Statement for One Month Ending January 30, 1915.

Gross Sales	2,195 69	
Less - Returns (none)		
Net Sales		2,195 69
Deduct - Cost of Goods Sold:		
Purchases	5,459 40	
Deduct - Inventory January 30, 1915	3,891 40	1,568 00
Gross Profit on Sales		627 69
Deduct - Operating Expenses		305 00
Net Profit from Operations		322 69
Add - Other Income:		
Discount on Purchases	71 13	
Interest on Notes Receivable	70	71 83
Total Income		394 52
Deduct - Other Charges:		
Interest on Note Discounted		1 70
Net Profit (see Balance Sheet)		392 82

A. W. Swenson
Balance Sheet, January 30, 1915.

Assets:			
<i>Current Assets:</i>			
Cash		8,305 47	
Accounts Receivable		967 55	
Notes Receivable		141 30	
Merchandise Inventory		3,891 40	
Total Current Assets			13,305 72
<i>Fixed Assets:</i>			
Furniture and Fixtures		260 00	
Total Fixed Assets			260 00
Total			13,565 72
<i>Liabilities and Capital</i>			
<i>Current Liabilities:</i>			
Accounts Payable		1,532 30	
Notes Payable		1,140 60	
Total Liabilities			2,672 90
<i>Capital:</i>			
A. W. Swenson's Capital Account			
Balance January 1, 1915		10,500 00	
Net Profit January 1, 1915 to January 30, 1915 (see Profit and Loss Statement)		392 82	10,892 82
Total			13,565 72

EXERCISE NO. 100

This problem is given as a drill in bookkeeping technique. The details of Model Exercise E must be carefully studied.

Required:

- (a) Make journal entries of transactions in the same manner as given in Model Exercise E.
- (b) Post the journal entries on to ledger sheets, opening and arranging accounts as follows:

<i>Account</i>	<i>Lines</i>	<i>Account</i>	<i>Lines</i>
Cash	21	Coburn & Co.....	4
E. B. Lowney.....	6	Everett & Co.....	4
K. W. Buck.....	5	Thomas E. Cooper, Capital.....	6
C. A. Blake.....	5	Sales	18
Henry Wenz & Co.....	4	Purchases	10
Brett & Blish.....	6	Freight In.....	9
Notes Receivable.....	6	Expense	10
Inventory	4	Purchases Discount.....	8
Furniture & Fixtures.....	5	Sales Discount.....	9
Armstrong & Co.....	6	Interest	7
Avery Manufacturing Co.....	4	Profit and loss.....	8
C. W. Coffin & Co.....	5		

- (c) Make trial balance.
- (d) Make profit and loss statement.
- (e) Make balance sheet.
- (f) Make closing journal entries and post them into ledger.
- (g) Rule off accounts that balance.
- (h) Rule and bring down the balances of cash and proprietor's accounts. (See model form.)

N. B. As a matter of convenience the arrangement of ledger accounts conforms to the order in which they are used on the balance sheet and profit and loss statement.

Points to be observed:

On the balance sheet do not give the names of the customers' accounts. Place their total against "Accounts Receivable." Carry out the same idea in creditors' accounts, placing the total against "Accounts Payable."

ABBREVIATIONS SHOULD NOT BE USED AND PUNCTUATION WILL BE REQUIRED ON BALANCE SHEETS AND PROFIT AND LOSS STATEMENTS.

When necessary, abbreviations may be used in journal entries, provided their use will not obscure the meaning.

Form and arrangement are of first importance in all work.

Model forms must be carefully studied and will be furnished to the students as needed.

"Freight In" is to be added to the purchases on the profit and loss statement as follows:

Deduct—Cost of Goods Sold:

Purchases	\$10,666.50		
Freight in.....	67.29	\$10,733.79	
		<hr/>	
Deduct—Inventory of January 30, 1918.....	6,444.50	\$4,289.29
		<hr/>	

TRANSACTIONS
EXERCISE NO. 100

January 1, 1918

Thomas E. Cooper has been employed as a business manager for a large concern, and has left his position to go into business for himself. He is favorably known and is able to obtain credit.

Deposited \$7,000 in First National Bank.

Gave check for \$200 to Whidden & Co. for store and office furniture.

Paid \$25 for various utensils and tools to be used about the store and office. (Debit Expense.)

Hired store No. 1253 Ash Street, agreeing to pay \$100 per month in advance. Gave check to Savage & Co. for January rent.

January 2.

Bought of Armstrong & Co., Mdse. 4/10 N/30 (4% discount if paid in 10 days, net 30 days), \$2,855.

Paid freight on above \$20.49. (Debit "Freight In" account.)

Bought of C. W. Coffin & Co., Mdse., 3/10 N/30, \$1,875.50.

Paid freight on above \$17.20.

January 4.

Bought of Avery Mfg. Co., Mdse. at 30 days net, \$1,429.80.

Paid freight on above \$10.80.

January 5.

Sold Mdse. to C. L. Patch for cash \$250.

Bought Mdse. of Coburn & Co., 5/10 N/60, \$894.75.

Paid freight on above \$7.60.

January 6.

Sold Mdse. to E. B. Lowney, 2/10 N/30, \$150.72.

Sold Mdse. to K. W. Buck, 3/10 N/30, \$451.20.

Cash sales of Mdse. \$78.90.

Post into ledger all transactions up to this point

January 9.

Sold Mdse. to C. A. Blake at 10 days, net, \$230.60.

Paid H. O. Holmes, clerk for services one week, \$15.

January 11.

Sold Mdse. to Henry Wenz & Co., 3/10 N/60, \$750.94.

Bought of Armstrong & Co., Mdse., 4/10 N/60, \$1,450.75.

Paid freight on above \$11.20.

Sold Mdse. to E. B. Lowney, 2/10 N/30, \$172.75.

Cash sales \$28.90.

Paid Armstrong & Co. for bill of January 2, less discount.

Paid C. W. Coffin & Co. for bill of January 2, less discount.

January 14.

Sold Mdse. to Brett & Blish, 3/10 N/30, \$445.20.

Cash sales \$126.40.

Post into ledger all transactions up to this point.

January 15.

Paid Coburn & Co. bill of January 5, less discount.

January 16.

Received cash of E. B. Lowney for bill of January 6, less discount.

Received cash of K. W. Buck for bill of January 6, less discount.

Paid H. O. Holmes, clerk \$15.

Cash sales \$52.40.

January 19.

Bought of Everett & Co. at 30 days, 1 typewriter \$85. (Debit "Furniture and Fixtures.")

January 22.

Sold Mdse. to Miller & Co. for their note at 60 days, \$625.

C. A. Blake, being unable to pay his bill of the 9th inst., Mr. Cooper took his note at 60 days, the amount of the note including the debt and 60 days' interest on the debt.

Received cash of E. B. Lowney for bill of January 11, less discount.

January 25.

The First National Bank has discounted Miller & Co.'s note of the 22nd inst. Net proceeds passed to my credit, \$619.07.

Paid H. O. Holmes, clerk, \$15.

Sold Mdse. to Brett & Blish at 30 days, \$1,240.50.

Bought Mdse. of C. W. Coffin & Co., 4/10 N/30, \$2,160.70.

Received cash of Brett & Blish for bill of January 14, less discount. (Allow the discount although Brett & Blish are one day late in remitting.)

January 26.

Gave Brett & Blish credit for goods returned \$16.40. (Debit Sales account.)

January 30.

Paid H. O. Holmes \$15. Mr. Cooper withdraws \$100 for his services. (Debit Expense account.)

INVENTORY OF MDSE. ON HAND, JANUARY 30, 1918, TAKEN AT COST, \$6,444.50.

TRIAL BALANCE OF B. D. PETERS, DECEMBER 31, 1917

Cash	\$1,250.00	
A. C. Davis.....	425.60	
T. B. Walthers.....	560.00	
W. A. Seymour.....	215.40	
B. A. Salmon.....	675.80	
Notes Receivable	42.50	
Furniture and Fixtures.....	1,000.00	
Cohen & Small.....		\$128.60
Harrison & Co.....		250.90
Notes Payable.....		64.60
B. D. Peters, Capital.....		5,700.00
Purchases	11,769.00	
Sales		13,250.00
Expenses	3,455.80	
	\$19,394.10	\$19,394.10
Cost of Merchandise on hand December 31, 1917.....		\$3,214.26

TRIAL BALANCE OF A. L. FRENCH, DECEMBER 31, 1917

Cash	\$2,578.95	
Accounts Receivable.....	6,675.21	
Merchandise Inventory December 31, 1916.....	10,020.30	
Delivery Equipment.....	1,800.00	
Furniture and Fixtures.....	2,500.00	
Accounts Payable.....		\$4,275.60
Notes Payable.....		1,000.00
A. L. French, Capital.....		17,000.00
Sales		53,650.90
Sales Returns	340.60	
Purchases	40,325.71	
Freight Inward	625.80	
Delivery Expense	1,058.20	
Selling Expense	6,923.83	
General Administrative Expense.....	3,077.90	
	\$75,926.50	\$75,926.50
Cost of Merchandise on hand December 31, 1917.....		\$10,482.57

EXERCISE NO. 101

H. C. Chase

Trial Balance, September 30, 1918

Cash	\$428.65	
Accounts Receivable.....	4,280.60	
Notes Receivable	228.00	
Inventory, July 1, 1918.....	2,800.00	
Office Equipment	475.00	
Store Equipment	650.00	
Delivery Equipment.....	1,200.00	
Accounts Payable.....		\$2,161.60
H. C. Chase, Capital.....		6,465.00
H. C. Chase, Personal.....	75.00	
Sales (Dr. \$156.25, Cr. \$13,365.99).....		13,209.74
Purchases (Dr. \$9,661.55, Cr. \$410.90).....	9,250.65	
Freight Inward	165.80	
Selling Expense	1,675.00	
General Administrative Expense.....	510.00	
Purchase Discount		245.68
Interest on Notes Receivable.....		2.28
Loss on Bad Accounts.....	345.60	
	<u>\$22,084.30</u>	<u>\$22,084.30</u>

Inventory of merchandise on hand September 30, 1918, taken at cost, \$3,060.49.

Required:

- (a) Working sheet
- (b) Profit and loss statement
- (c) Closing entries

"Loss on Bad Accounts" is not an operating expense and on the profit and loss statement should be placed under "Other Charges."

The debit and credit postings of the Sales and Purchase accounts are to be used in the profit and loss statement only. Use balances of accounts for closing entries.

PERCENTAGE

Per cent is the common name for hundredths.

The symbol % may be read per cent or hundredths.

Percentage is the process of computing by per cents or by hundredths.

.50 may be read fifty hundredths, fifty per cent or one half.

.045 may be read four and one-half per cent, four and one-half hundredths or forty-five thousandths.

.005 may be read one-half of one per cent or five thousandths.

The terms used in percentage are the base, the rate, and the percentage. The base is the number of which a per cent is taken; the rate is the number of hundredths to be taken of the base; the percentage is the result obtained by taking so many hundredths or a certain per cent of the base.

In the expression "10% of \$200 is \$20," \$200 is the base, \$20 is the percentage, and 10% is the rate.

FINDING THE PERCENTAGE

Multiply the base by the rate and the product will be the percentage.

Example. What is 25% of \$452?

Solution. 25% of a number equals .25 of it.

$$\begin{array}{r}
 \$452 \\
 .25 \\
 \hline
 2260 \\
 904 \\
 \hline
 \$113.00 = \text{Answer.}
 \end{array}$$

As 25% equals $\frac{1}{4}$ of 100%, it is obvious that if \$452 is divided by 4 the result will be the same as multiplying by .25.

$$\begin{array}{r}
 4 \overline{)452} \\
 \underline{4} \\
 13 \\
 \underline{12} \\
 130 \\
 \underline{120} \\
 100 \\
 \underline{100} \\
 0
 \end{array}$$

IN THE MULTIPLICATION OF DECIMALS, POINT OFF AS MANY PLACES IN THE PRODUCT AS THERE ARE DECIMAL PLACES IN BOTH MULTIPLICAND AND MULTIPLIER.

Fractional value of per cents frequently occurring:

Per Cent	Fractional Value	Per Cent	Fractional Value
12 $\frac{1}{2}$	$\frac{1}{8}$	20	$\frac{1}{5}$
25	$\frac{1}{4}$	16 $\frac{2}{3}$	$\frac{1}{6}$
37 $\frac{1}{2}$	$\frac{3}{8}$	33 $\frac{1}{3}$	$\frac{1}{3}$
62 $\frac{1}{2}$	$\frac{5}{8}$	66 $\frac{2}{3}$	$\frac{2}{3}$

1. A hardware merchant compromised with his creditors, paying 33 $\frac{1}{3}$ % of the amount of his debts. If he owed A \$750, B \$2,176.20, and C \$3,488.37, how much did each receive?

2. A merchant paid the following bills, less the discounts named: \$2,421.60 less 4%; \$210 less 3%; \$752.80 less 3 $\frac{1}{2}$ %. What was the net amount paid?

3. A wholesale grocer bought 240 bbls. of flour at \$10 per bbl. He sold 66 $\frac{2}{3}$ % of it at \$12 per bbl. and the remainder, which was damaged, for \$9 per barrel. Did he gain or lose and how much?

4. The net sales of a business were \$125,640.90; the gross profit was 33 $\frac{1}{3}$ % of the net sales, and the net profit 17% of the gross profit. What was the net profit?

5. A business block was bought for \$125,000. 38% of the cost was spent for remodeling and the block was then sold for \$185,000. How much was gained?
6. What is 115% of 1,000?
7. What is 120% of 600; of 2,100; of 3,000?
8. Find 12% of 2,800.
9. Find 20% of 2,500.
10. Find 16 2/3% of 200.

FINDING THE RATE

If multiplying the base by the rate will equal the percentage, it follows that if the percentage is divided by the base, the quotient will be the rate. Thus 12% of 125=15. If the base (125) and the percentage (15) were given, to find the rate, we should divide the percentage by the base as follows:

$$\begin{array}{r}
 .12=12\% \\
 \hline
 125 \overline{)15.00} \\
 \underline{125} \\
 250 \\
 \underline{250} \\
 0
 \end{array}$$

IN DIVISION OF DECIMALS POINT OFF AS MANY PLACES IN THE QUOTIENT AS THE NUMBER IN THE DIVIDEND EXCEEDS THOSE IN THE DIVISOR

What per cent of:

1. 8,000 is 2,400?
2. 3,600 is 600?
3. 1,312 is 328?
4. 2,600 is 169?
5. The net sales of a business are \$75,280.60; the gross profit on sales is \$26,348.21; the operating expenses are \$15,808.93; the net profit is \$10,539.28. Find (a) the rate per cent of gross profit on sales to net sales; (b) the rate per cent of operating expenses to net sales; (c) the rate per cent of net profit to net sales.
6. In question No. 5 the investment of the proprietor was \$52,696.42. Find the rate per cent of net profit to investment.
7. An agent sold a parcel of real estate for \$10,500 and received \$262.50 for his services. What per cent did he receive?
8. A and B engage in business with a capital of \$50,000. A invests \$26,000 and B the remainder. What per cent of the total capital did each invest?
9. A house was bought for \$3,500 and sold for \$4,200. What per cent was gained?
10. A traveling salesman earned a commission of \$1,284.05 on sales of \$25,680.95. What per cent did he receive on the sales?

Find the rate per cent of gross profit on sales to net sales from the following figures:

Net Sales	Gross Profit on Sales
11. \$140,000.00	\$42,000.00
12. 128,560.75	33,425.80
13. 80,110.45	18,124.25

Find the rate per cent of cost of goods sold to net sales from the following figures :

	Net Sales	Cost of Goods Sold
14.	\$46,280.60	\$27,768.36
15.	64,258.69	41,318.34
16.	7,540.80	4,237.93

Find the rate per cent of net profit to net sales from the following figures:

	Net Sales	Net Profit
17.	\$41,480.29	\$10,216.18
18.	100,218.94	15,249.27
19.	75,342.01	9,462.31

FINDING THE BASE

The quotient of the percentage divided by the rate equals the base.

Example: 45.3 is 20% of what number?

$$\frac{226.50}{.20} = \text{Base}$$

Solution: .20) 45.30

1. If the attendance in the Freshman class is 114 in one evening and that number is 95% of the total number, how many are absent?
2. We agree to give a customer a discount of 2% on his cash payments and accordingly he remits \$298.90. What amount should be placed to his credit? (To prove the answer, find 2% of the base, and deduct the percentage from the base. The result will be \$298.90.)
3. If the net profit is \$2,940 which is 12% of the sales, what is the amount of the sales?
4. A customer remits \$596.82 to pay a bill on which there is allowed a discount of 3%. What is the amount of the bill?
5. We buy real estate and give a mortgage for \$15,000 which was 33 1/3% of the price paid for the property. What was the price paid?

TRADE DISCOUNT

Trade discount is a deduction from the catalog or list price in order to arrive at the actual selling price of the goods. Different conditions as to the quantity of goods sold, the state of the customer's credit, etc., cause the discounts to vary. One customer may receive a discount of 25%; another may receive 25% and 10%. Two or more discounts are called a discount series. Trade discounts should not be confused with cash discounts. A trade discount is deducted from the list or catalog price at the time the sale is made, the net amount being charged to the customer. A cash discount is a deduction made from the amount of the bill because of payment in cash being made by the customer in a certain number of days after the date of the bill.

When two or more discounts are quoted, the first one is computed on the list or catalog price; the second on the remainder after deducting the first, and so on.

Example: A bill of electrical goods per catalog price is \$490.80, subject to a discount of 10% and 5%. What was the net amount of the bill?

Solution:	\$490.80
10% off	49.08
	<hr/>
	\$441.72
5% off	22.09
	<hr/>

\$419.63 = the net amount of the bill.

The equivalent of a series of discounts may be found as follows:

Example: Find a single rate of discount equivalent to a discount series of 10% and 5%.

Solution: Let 100% represent the list price. Then 90% equals the list price after the first discount has been subtracted. 5% of 90% equals $4\frac{1}{2}\%$, which subtracted from 90%, gives $85\frac{1}{2}\%$. $100\% - 85\frac{1}{2}\% = 14\frac{1}{2}\%$, the single discount required.

1. Which is the better for the buyer and how much, a single discount of 50% or a discount series of 40%, 10% and 5%?
2. Goods were sold subject to trade discounts of 20%, and 10%. If the total discounts allowed amounted to \$91, what was the list price?
3. Find the net selling price of an article listed at \$630.00 subject to trade discounts of $33\frac{1}{3}\%$, 10%, and 5%.

INTEREST

Interest is compensation for the use of money and is computed at a certain per cent of the sum borrowed. In business 12 months of 30 days each or 360 days are considered one year. This is not exact but it is used because convenient and lends itself readily to the decimal system of computing interest.

COMPUTATION OF TIME: The Negotiable Instrument Law provides that where a note or draft is payable a fixed number of days after date or sight, the date of the instrument is excluded and the day of payment is included in the computation of time. Thus in finding the date of maturity of a note dated April 10, payable in 10 days, April 11 is the first day counted and April 20 the last day. If a note falls due on Saturday, which is a half holiday, and is paid on the Monday following, two days' interest are added.

Otherwise than in the above case there seems to be no universal method of calculating time. The Months and Days Method and the Exact number of Days Method are used according to the whim of the individual making the calculation, or according to the custom of a particular office or line of business.

MONTHS AND DAYS METHOD

Example: Find the time from April 8, 1917, to October 1, 1917.

Solution: From April to May 8 is one month; to June 8, two months; to July 8, three months; to August 8, four months; to September 8, five months. There are 22 days remaining in September and one in October, making 23 days which added to the months previously found, give the time as five months twenty-three days.

Find the time in months and days from

1. June 25, 1916, to June 1, 1917.
2. October 15, 1916, to December 31, 1916.
3. January 21, 1918, to September 30, 1918.
4. February 2, 1918, to October 1, 1918.

EXACT NUMBER OF DAYS METHOD

Example: Find the time from April 8, 1917, to October 1, 1917.

Solution: number of days remaining in April,	22
number of days in May,	31
“ “ “ “ June,	30
“ “ “ “ July,	31
“ “ “ “ August,	31
“ “ “ “ September,	30
“ “ “ “ October,	1

Total	176 days
-------	----------

Find the time in exact number of days from

1. July 5, 1917, to December 29, 1917.
2. May 2, 1917, to August 3, 1918.
3. September 30, 1917, to November 30, 1917.
4. January 1, 1918, to October 1, 1918.

COMPUTING INTEREST

There are two general methods of calculating interest, the Government or Accurate Method and the Decimal Method. There are variations of the decimal method but they all arrive at the same result.

THE DECIMAL SYSTEM

THE DECIMAL SYSTEM OF COMPUTING INTEREST used in ordinary business transactions is based upon the fact that the interest on one dollar at 6% for 16 $\frac{2}{3}$ years will equal one dollar. In other words, any sum drawing interest at 6% will in 16 $\frac{2}{3}$ years (200 months) gain a sum equal to itself. Then the interest for 20 months ($\frac{1}{10}$ of 200 months) will equal $\frac{1}{10}$ of the principal. The interest for two months will equal $\frac{1}{100}$ of the principal, and the interest for 6 days ($\frac{1}{10}$ of two months) will equal $\frac{1}{1,000}$ of the principal. 360 days to the year are used with this method.

Example: Find the interest on \$1,250 for 3 months, 18 days at 6%.

Solution: Moving the decimal point in the principal two places to the left gives \$12.50 as the interest for two months. One-half of \$12.50 or \$6.25 equals the interest for one month. Moving the decimal point in the principal three places to the left gives the interest for six days which is \$1.25.

To arrive at the interest for 18 days we multiply \$1.25 by 3 which gives \$3.75 as the interest for 18 days.

The solution may be placed in a concise form as follows:

\$1,250 = Principal

\$12.50 = Interest for two months

6.25 = Interest for one month

3.75 = Interest for 18 days

\$22.50 = Interest for three months, eighteen days.

IN COMPUTING RATES OTHER THAN 6%, find 6% first, then add or subtract as the case requires. If 5% is wanted compute interest at 6% and divide by 6, giving 1%. Subtract the 1% from the 6%. If 7% is called for, divide as before and add the result to the 6%. If $4\frac{1}{2}\%$ is required, divide 6% by 4 which gives $1\frac{1}{2}\%$. Subtract the $1\frac{1}{2}\%$ from 6% and the result is $4\frac{1}{2}\%$.

In the following examples find the exact number of days between the dates given and reduce to months and days, allowing 30 days to a month, 360 days per year, and compute interest by the decimal method.

	Principal	Time	Rate
1.	\$3,000.00	January 1, 1918, to February 5, 1918	6%
2.	2,948.60	May 9, 1918, to June 30, 1918	5%
3.	7,269.75	November 20, 1917, to February 2, 1918	6%
4.	4,375.90	December 15, 1917, to March 8, 1918	3%
5.	6,429.40	January 3, 1918, to March 10, 1918	$4\frac{1}{2}\%$

A variation of this method is to point off three places in the principal, multiply by the number of days and divide by 6.

Compute interest on the following amounts for the time mentioned, using the months and days method of finding time, 360 days to the year.

1.	\$2,864.32	October 25, 1918, to December 31, 1918	7%
2.	2,000.00	February 1, 1918, to May 6, 1918	8%
3.	5,520.80	February 1, 1918, to February 24, 1918	6%
4.	8,143.70	March 20, 1918, to June 15, 1918	4%
5.	9,486.00	June 1, 1918, to September 13, 1918	5%

ACCURATE INTEREST

In all transactions involving the computation of interest the U. S. Government uses the actual number of days, 365 days to the year.

ACCURATE INTEREST METHOD. To find the accurate interest for an exact number of days, compute the interest on the amount for one year at the given rate, divide this result by 365 to obtain the interest for one day and multiply the quotient by the required number of days. An easier working method, however, is to multiply the interest of one year by the number of days required and divide by 365, thus reversing the order of the multiplication and division. Example: Find the accurate interest of \$1,350.68 from May 10, 1917, to September 5, 1917, at 5%. The number of days is found as follows:

May,	21 days
June,	30 days
July,	31 days
August,	31 days
September,	5 days
<hr style="width: 10%; margin: 5px auto;"/>	
118 days	

The interest on \$1,350.68 for one year at 5% is \$67.534. The problem may now be expressed in this manner:

$$\begin{array}{r} 67.534 \times 118 \\ \hline 1 \qquad 365 \end{array}$$

\$67.534 the interest for one year multiplied by 118, the number of days = \$7,969.012. Dividing the last product by 365 gives \$21.83, the answer desired.

Find the accurate interest on the following amounts for the time and rate mentioned.

	Principal	Time	Rate
1.	\$1,892.50	January 1, 1917, to May 2, 1917	5½%
2.	32,876.40	March 1, 1917, to December 4, 1917	6%
3.	10,743.60	October 16, 1917, to November 13, 1917	7%
4.	2,594.16	April 1, 1917, to January 3, 1918	6%
5.	14,641.20	Nov. 29, 1917, to April 3, 1918	4½%

BANK DISCOUNT

There is no standard method of computing time and interest used by banks in discounting notes except as provided by the Negotiable Instrument Law in reckoning time on notes and drafts payable in a certain number of days. There is a tendency, however, towards the use of accurate interest.

In the following examples first find the date of maturity of the note by counting the time as expressed in the note, forward from the date of the note; then find the time in exact number of days between the date the note was discounted and the date of maturity. Reduce this time to months and days and compute the discount for that time, decimal method 30 days to a month, on the amount due at maturity. If the note is not interest bearing, the discount is reckoned on the amount of the note. If the note bears interest the discount will be figured on the amount of the note plus the interest on that amount for exact number of days from the date of the note until the date of maturity.

Example: Note of Blish & Co. for \$6,475 at 60 days, dated October 7, 1917, discounted October 15, 1917, at 6%.

Solution: Counting 60 days forward from the date of the note gives December 6, 1917, as the date of maturity.

From October 15, the day of discount, to December 6, the day of maturity, the time is 52 days or 1 month, 22 days.

$\$6,475 = \text{Principal}$

$\$32.375 = \text{Interest for one month}$

$21.583 = \text{Interest for twenty days}$

$2.158 = \text{Interest for two days}$

$\$56.116 = \text{Answer.}$

The above answer should be read \$56.12 as five mills or more in a final result are considered as one cent.

Example: Sampson & Snow's note at three months date October 12, 1917, bearing interest at 5%, discounted October 15, 1917.

Solution: Note due January 12, 1918. October 12 to January 12 = 92 days = 3 months, 2 days.

Interest 3 months, 2 days, at 5% on \$4,250 = \$54.31 which added to \$4,250 = \$4,304.31.

The time from October 15 (date of discount) to January 12 (date of maturity) is 89 days = 2 months, 29 days. Discount rate 6%.

$\$4,304.31 = \text{Amount due at maturity}$

$43.043 = \text{Interest for 2 months}$

$21.521 = \text{Interest for 1 month}$

64.564

$.717 = \text{Less interest for 1 day}$

$\$63.85 = \text{Discount on Sampson \& Snow's note.}$

The discount rate is commonly 6% but any other rate may be agreed upon.

For convenience in computing interest, banks usually disregard a fraction of a dollar less than 50 cents; but if the fraction is 50 or more cents it is considered as another dollar. In this work, however, the exact amount will be used.

Find the discount on the following notes:

	Face of Note	Date	Time	Discounted	Interest
1.	\$3,400.00	January 25	3 months	January 28	6%
2.	1,625.00	February 1	60 days	February 1	
3.	4,617.80	March 10	90 days	March 12	
4.	2,914.20	October 1	60 days	October 4	5%
5.	2,914.20	October 1	60 days	October 4	
6.	7,218.90	May 3	4 months	May 4	4%
7.	6,429.40	June 16	30 days	June 17	
8.	1,627.64	September 1	2 months	September 1	
9.	1,250.00	October 3	3 months	October 5	6%
10.	1,872.40	October 29	60 days	October 30	

Find the discount on the following drafts:

(The date of maturity is found by adding the time to the date of acceptance.)

	Amount	Time after sight	Accepted	Discounted
1.	\$2,524.20	30 days	June 10, 1918	June 11, 1918
2.	1,640.35	60 days	June 14, 1918	June 17, 1918
3.	3,429.60	90 days	July 1, 1918	July 2, 1918
		(Falls due on Sunday and is paid on Monday following)		
4.	672.90	60 days	July 5, 1918	July 6, 1918
5.	4,261.75	30 days	May 9, 1918	May 11, 1918

To find the amount for which a note to be discounted should be written in order to borrow a certain sum :
 Divide the amount to be borrowed by the net proceeds of one dollar for the given rate and time.

You have your note at 3 months discounted at a bank and realize \$5,000. The discount rate being 6%,
 what is the amount of the note?

Solution :

\$1.00 less interest for three months at 6% = .985
 \$5076.14

 .985) 5000.00000
 4925

 7500
 6895

 6050
 5910

 1400
 985

 4150
 3940

 210

Answer : Amount of note, \$5,076.14.

Proof : \$5,076.14 less interest for three months at 6% = \$5,000.

EXERCISE NO. 102

Journalize the following transactions :

October 1, 1915.

S. W. Beaman, one of your customers, returns goods to you which arrived damaged \$45.85.

October 2.

You receive a note of \$275.00 from Martin & Co. which you immediately transfer to J. A. Curry.

October 3.

You return goods to Maynard & Warner which were not up to sample exhibited, \$38.60.

October 4.

Purchase Discount was debited \$125.60 instead of Sales Discount. Correct the error.

October 5.

You took up your note of \$450.00 to E. W. Lane by giving him merchandise \$300 and a new note at 60 days for the balance.

October 6.

The Wilton Woolen Company has called our attention to an error in our bill of October 3rd in which we charged them \$1.75 each for one dozen Stilson wrenches. We had previously quoted the price as \$1.25 each. Make entry to correct error.

October 7.

J. H. Roberts gives us on account Jones & Co.'s note for \$600 at three months dated September 25. We allow Roberts the present worth of the note, \$592.10.

October 8.

On merchandise previously sold and charged to Jones & Co. you have agreed to pay freight. You did not prepay it and Jones & Co. notify you that they have paid freight, \$5.10.

October 9.

We buy merchandise of Soames & Smith \$2,000, giving in payment our note at two months.

October 10.

The Derby Desk Company allow us a rebate of \$10 on an office desk which has been credited to the Derby Desk Co. but has not been paid for.

EXERCISE NO. 103

C. W. Cutter

Trial Balance, June 30, 1918.

Cash	\$729.68	
Accounts Receivable	5,586.20	
Notes Receivable	480.00	
Inventory, December 31, 1917 (cost).....	3,186.25	
Delivery Equipment	650.00	
Furniture and Fixtures.....	775.00	
Accounts Payable		\$2,075.80
C. W. Cutter, Capital.....		8,050.00
Purchases	15,142.60	
Purchase Returns		210.60
Purchase Discounts		165.00
Sales		21,578.75
Sale Returns	429.42	
Selling Expense	3,188.00	
General Administrative Expense.....	1,800.00	
Loss on Bad Accounts.....	125.00	
Interest		12.00
	<u>\$32,092.15</u>	<u>\$32,092.15</u>

Merchandise Inventory, June 30, 1918—\$3,360.95 (cost)

Required:

- (a) Working sheet.
- (b) Balance sheet.
- (c) Closing entries.
- (d) Find per cent of cost of doing business to net sales.
- (e) Find per cent of net profit to net sales.
- (f) Find rate of turnover.

N. B. Do not abbreviate on balance sheets and profit and loss statements. Do not forget punctuation.

QUIZ QUESTIONS IN ACCOUNTING TECHNIQUE
FRESHMAN CLASS

1. What is a post mark?
2. Where is a post mark placed?
3. What does it indicate?
4. When should it be made?
5. What is a journal?
6. What is a ledger?
7. What is the balance of an account?
8. Give a rule for debiting and crediting accounts.
9. Into what account are the accounts which affect proprietorship closed at the end of the accounting period?
10. Into what account is the profit and loss account closed?
11. Do business earnings appear as a debit or a credit in income or revenue accounts?
12. Define expense.
13. To which side of the expense account are expenses posted?
14. What becomes of these expenses at the end of the business period when the expense account is closed?
15. May there be more than one expense account?
16. Give the names of several expense accounts.
17. What is the balance of the profit and loss account called?
18. What is an account receivable?
19. What is an account payable?
20. What is debited to a notes receivable account?
21. What is credited to a notes receivable account?
22. Of what does the balance of the notes receivable account consist and is it an asset or a liability?
23. What is debited to a personal account?
24. What is credited to a personal account?
25. When is the balance of a personal account an asset?
26. When is the balance of a personal account a liability?
27. What is posted to the sales account?
28. Is the balance of the sales account an asset or a liability?
29. What is posted to the purchases account?
30. What is interest?
31. What is discount?
32. What is posted to an interest account?
33. Is a credit balance of an interest account an asset, liability, expense or income?
34. What is a trial balance?
35. Does the trial balance prove the accuracy of the accounts?
36. What does the trial balance prove?
37. If your trial balance were wrong how would you know it and how would you proceed to find the error?
38. Why do business concerns commonly use more than one book of original entry?
39. What word is used to designate all kinds of things that have value to a business?
40. What is a liability?
41. Into what classes are assets divided on the balance sheet?
42. Define the different classes of assets on a balance sheet.
43. Define the different classes of liabilities on a balance sheet.
44. Name the three divisions or parts of a balance sheet.

EXERCISE NO. 104

J. B. McLean's Trial Balance, September 30, 1918. (After Adjusting)

Real Estate	\$25,000.00	
Store Fixtures	4,250.00	
Reserve for Depreciation of Store Fixtures.....		\$600.00
Motor Trucks	2,850.00	
Reserve for Depreciation.....		412.50
Office Equipment	1,850.00	
Reserve for Depreciation of Office Equipment.....		140.00
Cash	2,150.48	
Accounts Receivable	27,725.82	
Reserve for Loss on Bad Accounts.....		514.50
Notes Receivable	325.00	
Merchandise Inventory, June 30, 1918.....	12,428.50	
Sales		48,103.48
Sale Returns	1,740.60	
Purchases	33,460.20	
Purchase Returns		2,450.10
Freight In	385.90	
Mortgage Payable		10,000.00
Accounts Payable		17,920.80
J. B. McLean, Capital.....		43,000.00
J. B. McLean, Personal.....	600.00	
Selling Expense	6,363.54	
General Administrative Expense.....	2,840.00	
Discounts on Purchases.....		1,338.40
Delivery Expense	818.00	
Discount on Sales.....	969.44	
Insurance Unexpired	35.60	
Garage Supplies on Hand.....	22.20	
Loss on Bad Accounts.....	514.50	
Interest	150.00	
	<u>\$124,479.78</u>	<u>\$124,479.78</u>

Merchandise Inventory, September 30, 1918, \$14,260.28.

Required:

- (a) Working sheet.
- (b) Profit and loss statement.
- (c) Closing entries.

The above trial balance was taken after the adjusting entries were made and posted. The student therefore will make only the usual closing journal entries.

Mr. McLean wishes you to close the net profit or net loss into his personal account and the resulting balance of the personal account into his capital account.

TYPICAL ADJUSTING ENTRIES

Adjusting Journal entries should be explained in such a manner that the essential points of the adjustment may be understood by one not familiar with the transaction and the data furnished should be of such a character that the amount of the entry can be computed therefrom.

Loss on Bad Accounts.....	\$1,052.90	
Reserve for Loss on Bad Accounts.....		\$1,052.90
To adjust the Reserve account to agree with 1% of the net sales:		
1% of net sales.....	\$1,146.90	
Balance of Reserve account.....	94.00	
	\$1,052.90	
Amount necessary to adjust.....	\$1,052.90	
Depreciation of Store Equipment.....	79.00	
Reserve for Depreciation of Store Equipment.....		79.00
General Office Expense.....	37.50	
Reserve for Depreciation of Office Equipment.....		37.50
Estimated depreciation of above equipment for year ending 12-31-16:		
Figured on cost of store equipment.....	\$790.00	
and office equipment.....	375.00	
at the rate of 10% per annum		
Advance Advertising	500.00	
Advertising		500.00
To set up as an asset $\frac{1}{4}$ of the advertising already paid for, it being estimated that this proportion influences the sales of the next fiscal period.		
Taxes on Stock.....	82.50	
Taxes Accrued		82.50
Accrued taxes April 1-June 30=3 mos, calculated on basis of rate last year, \$16.50 per thousand on \$20,000. One year $\$330 \div 4 = 3$ mos., \$82.50		
Interest on Mortgage Payable.....	104.17	
Interest Accrued on Mortgage Payable.....		104.17
Interest accrued on mortgage payable of \$25,000 from 5-31-16 to 6-30-16 =1 month at 5%=\$104.17 as above.		
Delivery Expense	520.00	
Reserve for Depreciation of Motor Trucks.....		520.00
To provide for depreciation of motor trucks at the rate of 20% per annum on equipment costing \$2,600.		
Interest on Notes and Loans Payable.....	208.33	
Interest Accrued on Notes Payable.....		208.33
Interest accrued on Note of \$50,000 to First National Bank, interest 5%, from 5-31-16 to 6-30-16=30 days=\$208.33.		
Inward Freight	732.00	
Outward Freight	1,098.00	
Delivery Expense		1,830.00
To distribute Delivery Expense on the basis of 40% to Inward Freight and 60% to Outward Freight.		

It is not well to attempt to apply the principles of debit and credit to closing and adjusting entries as such entries do not represent business transactions and are made for the purpose of computing the results of the business period.

EXERCISE NO. 105

Charles B. Annis, Trial Balance December 31, 1918

Land and Buildings.....	\$10,000.00	
Tools and Implements.....	750.00	
Horse and Wagon.....	300.00	
Furniture and Fixtures.....	100.00	
Cash.....	893.45	
Accounts Receivable.....	3,480.90	
Notes Receivable.....	200.00	
Inventory June 30, 1918.....	8,241.65	
Mortgage Payable.....		\$3,000.00
Accounts Payable.....		2,480.50
Notes Payable.....		300.00
Charles B. Annis, Capital.....		14,813.74
Charles B. Annis, Drawings.....	750.00	
Purchases.....	12,460.75	
Purchase Returns.....		250.00
Sales.....		23,370.71
Sale Returns.....	1,740.80	
Freight Inward.....	468.00	
Purchase Discount.....		629.50
Interest.....	180.00	
Selling Expense.....	4,480.60	
Administrative Expense.....	349.00	
Loss on Bad Accounts.....	449.30	
	<hr/>	
	\$44,844.45	\$44,844.45
	<hr/>	
Inventory December 31, 1918.....		\$7,260.55

Required:

- (a) Working sheet.
- (b) Profit and loss Statement.
- (c) Balance sheet.
- (d) Closing entries.

Place the fixed assets first on the balance sheet.

EXERCISE NO. 106

T. B. Witherspoon

Trial Balance June 30, 1917 (After Adjusting)

Cash	\$1,197.00	
Customers' Accounts	12,295.60	
Bills Receivable	101.00	
Merchandise on Hand December 31, 1916 (Cost).....	3,307.50	
Furniture and Fixtures (Cost).....	1,250.00	
Horses and Wagons (Cost).....	1,350.00	
Accounts Payable		\$9,649.70
T. B. Witherspoon, Capital.....		10,605.63
T. B. Witherspoon, Drawings.....	600.00	
Purchases	19,050.75	
Sales		24,242.80
Interest		16.72
Expenses	2,800.00	
Salaries	2,806.00	
Insurance Unexpired	25.00	
Loss on Bad Accounts	172.00	
Reserve for Depreciation of Furniture and Fixtures.....		162.50
Reserve for Depreciation of Horses and Wagons.....		187.50
Reserve for Loss on Bad Accounts.....		105.00
Stable Expenses	300.00	
Cash Discounts on Purchases.....		285.00
	<u>\$45,254.85</u>	<u>\$45,254.85</u>
Cost of merchandise on hand June 30, 1917.....		\$2,560.75

Required:

- (a) Profit and loss statement.
- (b) Balance sheet.
- (c) Closing entries.
- (d) Questions answered.

1. What in your opinion is the cause of the trouble in the above business?
2. If Mr. Witherspoon should apply to you for a loan of \$2,000 to relieve his financial distress do you think it would be safe to do so? Give full reasons for your answer.

EXERCISE NO. 107

Make entries in Journal form with full explanations for the following transactions:

October 1, 1918

The old books being closed, you desire to open a new set. Your balance sheet shows assets and liabilities as follows: Cash \$642, Accounts Receivable \$6,250, Notes Receivable \$348.50, Merchandise on hand (cost) \$3,260.75, Furniture and Fixtures \$550, Horse and Wagon \$350, Accounts Payable \$4,128.60, Notes Payable \$1,000.

Make entry to open new books.

October 2.

J. M. Johnson has failed owing you \$368 and pays 50%. You receive from him the Boston Iron Company's note for \$184 in full settlement. Make entry for settlement.

October 3.

The First National Bank has discounted your note of this date at two months for \$750 at 6%.

October 4.

The First National Bank has discounted Holmes and Company's note in your favor, face \$3,275, time 60 days at 6%.

October 5.

A note made by the Liverpool Bridge Co. for \$1,260 at 90 days in your favor and which the First National Bank had discounted, the maker cannot pay. (1) You send a check to the bank to pay the note and the note thus obtained is handed back to the Liverpool Bridge Co. (2) In exchange the Bridge Co. gives you \$500 cash and a new note at 30 days for an amount which includes the balance due plus 30 days' interest. Make entries for Nos. 1 and 2.

October 6.

You have received a note for \$1,256.80 at 60 days made by John Baynes, one of your customers. The note is dated October 4, bears interest at 5% and is discounted October 6. Make entries for discounting the note at 6%.

October 7.

Haines & Co. credit you for goods returned \$104.

October 8.

You accept a draft at 60 days sight drawn by the Edgeworth Pottery Co. in favor of the First National Bank, for \$472.

October 9.

Received cash in payment of Sircom & Company's note \$212.

October 10.

You receive from Simpson & Co. on account Silas Cohen's note in their favor dated October 1, at four months for \$721.48, which they have transferred to you by indorsement. You credit Simpson & Co. for the present worth of the note.

EXERCISE NO. 108

A. B. Martin

Footings of Accounts, June 30, 1918 (After Adjusting)

	<i>Dr.</i>	<i>Cr.</i>
Cash	\$11,447.00	\$10,250.00
Customers' Accounts	14,756.40	12,460.80
Bills Receivable	411.00	310.00
Furniture and Fixtures.....	290.00	40.00
Merchandise on hand December 31, 1917 (cost).....	3,307.50	
Horse and Wagon (cost).....	350.00	
Accounts Payable	8,142.60	8,792.30
A. B. Martin, Capital.....		4,795.63
A. B. Martin, Drawings.....	600.00	
Purchases	9,390.75	340.00
Sales	305.60	14,548.40
Interest		6.72
Expenses	1,800.00	
Salaries	806.00	
Insurance Unexpired	25.00	
Loss on Bad Accounts.....	172.00	
Reserve for Depreciation of Furniture and Fixtures.....	40.00	102.50
Reserve for Depreciation of Horse and Wagon.....		87.50
Reserve for Loss on Bad Accounts.....		105.00
Stable Expenses	180.00	
Cash Discounts on Purchases.....		185.00
	\$52,023.85	\$52,023.85
Cost of Merchandise on hand June 30, 1918.....		\$2,560.75

Required:

- (a) Trial balance.
- (b) Profit and loss statement.
- (c) Balance sheet.
- (d) Closing entries on journal paper.
- (e) Answers to questions.

1. Explain how you would account for the fact that loss on bad accounts shows a debit balance of \$172, while reserve for loss on bad accounts has a credit balance of only \$105.
 2. How do you account for the difference between the amount of sales and the amount charged to customers' accounts?
 3. Is the merchandise on hand December 31, 1917, an asset at the time of closing the books June 30, 1918? Give reason for your answer.
 4. What expenses have been posted to the expense account?
- Mr. Martin instructs you to close his net profit and his drawings account into the capital account.

EXERCISE NO. 109

G. C. Cole

Trial Balance October 31, 1917

Cash	\$4,672.04	
Accounts Receivable	7,569.05	
Notes Receivable	142.80	
Furniture and Fixtures.....	364.00	
Saxon & Company.....		\$122.50
Lever Bros.		1,023.80
B. B. Pierce & Company.....		3,024.62
Park & Tilford.....		2,218.14
Notes Payable		350.00
G. C. Cole, Capital.....		18,000.00
Sales		41,270.60
Sale Returns	178.00	
Inventory (January 1, 1917).....	13,150.48	
Purchases	37,642.50	
Purchase Returns		1,183.60
Cash Discount on Purchases.....		1,592.41
Cash Discount on Sales.....	670.50	
Freight In.....	342.80	
Express Out	271.50	
Selling Expense	2,782.00	
General Administrative Expense.....	1,000.00	
	<u>\$68,785.67</u>	<u>\$68,785.67</u>
Merchandise inventory October 31, 1917.....		\$15,480.75

Required:

- (a) Ledger accounts (six accounts to a ledger page).
- (b) Profit and loss statement.
- (c) Balance sheet.
- (d) Closing entries.

Open ledger accounts directly from the trial balance using "T. B." in the folio column. After the closing entries are posted, rule off the accounts that balance in the ledger.

The transactions given below form a continuation of the business conducted by G. C. Cole. The student should use a journal (two pages), cash book (two opposite pages), purchase book (one page), and a sales book (one page). On each page of the cash book rule two additional money columns making a four column cash book. Each of the extra columns should be one inch wide, 2/8 in. for the cents, 6/8 in. for the dollars. The money columns should be headed from left to right on the cash received page as follows: Accounts Receivable Cr., Sundry Credits, Discounts on Sales, Net Receipts; on the cash payments page, Administrative Expense Debit, Sundry Debits, Discount on Purchases, Net Payments.

Use ledger already made for a general ledger in which the account headed "Accounts Receivable" is a "controlling" account and contains a summary of all the accounts in the sales ledger. Prepare a sales ledger using one double sheet of ledger paper containing the following customers' accounts with balances as of November 1, 1917. Allow eight lines to each account. Number the pages of the general ledger 1-4 and the pages of the sales ledger 5-7; also number the journal ruled pages consecutively.

Holden & Bliss.....	\$1,640.25
Charles T. Johnson.....	1,420.67
John B. Wise.....	2,241.08
Ellison & Co.....	1,291.64
C. A. Weed.....	250.00
Foss & Daniels.....	725.41
	<hr/>
	\$7,569.05
	<hr/>

Notice that the sum of the above balances is the same as the balance of the Accounts Receivable account on the trial balance.

Problem should be complete in every detail when passed in. Post marks, dates, ruling, explanations of journal entries, etc., must not be omitted. Technique, neatness, and arrangement will be considered in grading. Be sure that you understand the controlling account (Accounts Receivable) and the manner of posting to it.

Required:

- (a) Make entries in appropriate book for the transactions given below.
- (b) Post into general and sales ledgers.
- (c) Make trial balance
- (d) Foot and rule books of original entry.

November 1.

G. C. Cole agrees to admit Samuel C. Locke as a partner in the business, the firm to be known as Cole and Locke. Locke on his part contributes to the capital of the concern an amount equal to one-half of the net worth of the business according to the balance sheet of October 31, as follows:

A three months' note for \$5,244.79 dated October 1, 1917, made by the Acme Fruit Co. and bearing interest at 7%. (Mr. Locke is to be credited for interest, one month—debit Interest Accrued); also a note for \$5,469.41 at 20 days bearing interest at 6%, made by Locke, payable to Cole and Locke and dated November 1, 1917. It is also agreed that the profits shall be divided or the losses borne, in the same proportion as their capital investments.

Journal entries must be fully explained

November 2.

Insured stock of merchandise in store for \$12,000. Paid premium in cash \$90.

November 3.

Sold Nelson & Stern Mdse. 2/15 N/60, \$1,215.

November 4.

Accepted Lever Bros'. draft at 20 days' sight \$428.

November 5.

B. B. Pierce & Co. draw on us at 60 days' sight for \$2,200. We paid it at once less discount for 60 days.

November 6.

Bought draft for \$122.50 at ½% exchange and remitted it to Saxon & Company in full.

November 7.

Sold to Soames & Phipps at 2/10 N/30 Mdse. \$258.70.

November 8.

Paid our acceptance of October 23 favor Milton & Co. \$350.

November 9.

Gave Park & Tilford check in full less discount 3%.

November 12.

Accepted B. B. Pierce & Company's draft favor of J. W. Edmunds dated November 8 at 30 days' sight in full \$824.62.

November 13.

Bought of Tomasso DeVito Mdse. \$3,250., terms 4/15 N/30.

November 14.

Received cash from Brimmer and Goldberg for their acceptance of October 15, \$142.80.

November 17.

Received of Soames & Phipps cash for bill of November 7 less discount 2%.

Drew on Holden & Bliss at 30 days' sight for \$1,640.25 favor of ourselves, accepted 14th inst. Discounted the draft at National Security Bank this day.

November 18.

Received of Nelson & Stern cash for bill of November 3, less discount 2%.

Accepted, payable at National Shawmut Bank, Lever Bros. draft for \$250.80 at 20 days' sight, favor of themselves.

Sold John B. Wise Mdse. \$425.80, terms 2/10 N/30.

November 19.

Received of Ellison & Co. on account an accepted draft for \$525 at 30 days drawn by the Bowery Bank of New York on the Fourth National Bank of Boston, in his favor and endorsed by him to Cole & Locke.

November 20.

Bought of B. B. Pierce & Co. Mdse. \$1,066.50. Gave them in part payment the acceptance received from Ellison & Co. on the 19th inst.

November 21.

Mr. Locke paid his note of November 1 in cash with interest at 6%.

November 22.

Sold C. A. Weed at 10 days Mdse. \$420.81.

November 23.

Paid T. DeVito for bill of November 13 less discount 4%.

Prepaid our acceptance of the 12th inst., favor J. W. Edmunds less discount for 19 days.

November 24.

Paid our acceptance Lever Bros'. draft of November 4.

November 28.

Received cash of J. B. Wise for bill of November 18, less discount 2%.

November 29.

Charles T. Johnson fails and pays 40%. Received cash from the assignees in full settlement.

November 30.

Discounted at National Shawmut Bank Acme Fruit Company's note received from S. O. Locke November 1. Discount 6%.

November 30.

Messrs. Cole and Locke each withdrew cash \$100 which is to be considered their salary as managers of the concern.

EXERCISE NO. 110

J. C. Edison

Trial Balance December 31, 1918

Cash	\$2,545.00	
Accounts Receivable	10,163.75	
Notes Receivable	2,749.00	
Inventory, June 30, 1918.....	6,758.70	
Office Equipment	680.00	
Accounts Payable		\$2,198.50
Notes Payable		2,041.00
J. C. Edison, Capital.....		21,830.00
Purchases (no returns)	24,560.00	
Interest on Notes Receivable.....		123.40
Interest on Notes Payable.....	198.40	
General Administrative Expenses.....	2,168.25	
Selling Expense	4,690.00	
Sales		29,840.20
Rent	600.00	
Cash Discounts on Sales.....	285.00	
Cash Discounts on Purchases.....		195.00
Sales Returns and Allowances.....	830.00	
	<u>\$56,228.10</u>	<u>\$56,228.10</u>
Inventory, December 31, 1918.....		\$9,200.00

The Notes Receivable balance consists of two notes: one for \$2,000, dated November 15, 1918, at 3 months, bears 7% interest and one for \$749, dated November 1, 1918, at 4 months which bears 4½% interest.

The Notes Payable balance consists of two notes: one for \$1,541, dated October 28, 1918, at 6 months, interest at 4½%, and one for \$500 dated December 1, 1918, at two months.

Depreciation on office equipment 10% per annum.

Reserve 1½% of the balance due from trade debtors to cover the amount which is estimated will be deducted by customers when paying the balances they owe as of December 31, 1918.

Required:

- (a) Working sheet with four additional columns for Adjustments and Adjusted Trial Balance.
- (b) Adjusting and closing entries.

Comments:

Mr. Edison's drawings have been charged to General Administrative Expenses.

All disbursements for freight and hauling inward have been charged to Purchases.

The goods on hand at the beginning and end of the period under review were valued at invoice prices.

EXERCISE NO. III

Samuel Goldman

Trial Balance, December 31, 1918

Furniture and Fixtures.....	\$1,200.00	
Cash	875.00	
Notes Receivable	250.00	
Accounts Receivable	8,890.00	
Inventory, December 31, 1917.....	5,678.90	
Mortgage Payable (On Furniture and Fixtures).....		\$500.00
Accounts Payable		1,890.60
Notes Payable		720.50
Samuel Goldman, Capital.....		8,100.00
Purchases	9,021.00	
Purchase Returns		189.65
Purchase Discount		208.42
Freight Inward	367.90	
Sales		17,852.04
Sale Returns	260.41	
Selling Expense	1,860.00	
General Administrative Expense.....	1,028.00	
Interest	30.00	
	<u>\$29,461.21</u>	<u>\$29,461.21</u>
Inventory December 31, 1918.....		\$4,145.29

Required:

- (a) Working sheet.
- (b) Balance sheet (fixed assets first).
- (c) Closing entries.
- (d) Answer questions.

The mortgage payable is a fixed liability.

Mr. Goldman wishes you to credit his Capital account for net profit sufficient to increase his investment to \$10,000, the balance of the net profit to be credited to an account entitled "Samuel Goldman, Current."

1. Does the amount of accounts receivable as compared with the sales indicate that collections were slow or normal?
2. Give percentage of cost of doing business (operating expenses plus other charges minus other income) to net sales.
3. Give percentage of gross profit on sales to sales.
4. Has Mr. Goldman withdrawn anything from the business for personal use? If so, to what account was it charged?

EXERCISE 112

A. C. Walker

Trial Balance September 30, 1918 (before adjusting)

Office Equipment	\$950.00	
Store Equipment	3,200.00	
Cash	2,125.92	
Accounts Receivable	20,080.55	
Merchandise Inventory March 31, 1918.....	18,441.62	
Accounts Payable		\$6,498.58
A. C. Walker, Capital.....		40,000.00
A. C. Walker, Drawing.....	1,500.00	
Purchases	102,580.91	
Purchase Returns		1,719.67
Sales		148,471.18
Sale Returns	12,180.60	
Selling Expense	32,210.50	
Administrative Expense	2,165.24	
Express	1,254.09	
	<u>\$196,689.43</u>	<u>\$196,689.43</u>
Merchandise on hand September 30, 1918.....		\$19,250.33

1 and 2. The business has been in operation one year and instead of setting up reserve accounts the bookkeeper credited office equipment \$50 and store equipment \$168 at the time the books were closed (March 31, 1918). It is now desired to open reserve accounts and to adjust the balances of the equipment accounts to show cost.

3 and 4. Add to the reserve accounts 5% of the cost of equipment to cover depreciation for the current period.

5. It is estimated that \$500 of the accounts receivable are uncollectable.

6. Mr. Walker wishes his drawings charged to administrative expense and the drawing account closed.

7. The inward express charges amount to \$313.52. Transfer this amount to purchases.

Required:

- (a) Working sheet (10 columns).
- (b) Adjusting and closing entries.
- (c) Profit and loss statement.
- (d) Why is not this business more prosperous?

Examine the two statements and find reason.

EXERCISE NO. 113

1. November 13, 1917, you have three bills on which you are entitled to discount if paid at once—one for \$1,375.50, 3%, another for \$647.35, 2%, and a third for \$1,733.65, 1½%. You have a note on hand for \$4,175 at 60 days dated November 1, 1917, which you have discounted and with the proceeds pay the bills less the discount. How much did you save by the operation? (Value 20)

2. If the note in question No. 1 had been payable with interest at 6% what would have been

(a) The net proceeds of the note, and

(b) The amount of cash left after paying the bills and taking advantage of the discount? (Value 10)

3. A check for \$238.08 is remitted to pay a bill on which there is a discount of 4%. What was the amount of the bill? (Value 5)

4. You purchase goods amounting to \$500 on 60 days' credit and can secure a discount of 2% by paying the bill at once. You borrow the money from a bank by having your note at 60 days discounted and with the net proceeds you pay the bill. How much did you borrow and what was the amount of the note? (Value 10)

5. On closing your books December 31, 1917, you have on hand three interest-bearing notes as follows:
\$2,025, at 3 months, dated December 1, 1917, at 5%.
\$10,250, at 2 months, dated December 15, 1917, at 4½%.
\$3,410, at 30 days, dated December 10, 1917, at 6%.

Compute interest accrued at date of closing and make journal entry therefor. (Value 10)

6. The bank discounts your note for \$1,540.60, date January 7, 1918, at 60 days, bearing interest at 6% and discounted January 9.

(a) What amount is due at maturity?

(b) What is the discount time?

(c) What is the discount?

(d) What sum is realized upon the note? (Value 10)

7. J. T. Connell gave you a note for \$1,175.90 dated February 10 at 2 months which you had discounted February 11.

(a) What amount is due at maturity?

(b) What is the discount time?

(c) What is the discount?

(d) What sum is realized upon the note? (Value 10)

8. A. W. Blake gives you a note at 90 days for \$287.50, dated November 1, which you had discounted November 2. Make journal entry for the note discounted. (Value 10)

9. Problem No. 35 from the Massachusetts C. P. A. Examination in Practical Accounting October 13, 1916.

The net profit of a business May 1, 1914, \$8,905.82; Inventory December, 1911, \$3,137.24; Purchases \$110,831.64; Sales \$163,376.08; Factory Labor \$38,999.16; Factory Expenses \$6,403.94; Repairs \$32.00; Telephone \$832.12; Insurance \$392.46; Advertising \$28.00; Commissions Paid \$1,922.02; Interest Paid \$626.00; Legal Expenses \$35.00; drawn out by proprietor \$3,196.00.

From the foregoing information ascertain Merchandise Inventory on May 1, 1914. (Value 15)

EXERCISE NO. 114

George W. Moody's Trial Balance September 30, 1918 (Before Adjusting)

Real Estate	\$25,000.00	
Store Fixtures	4,250.00	
Reserve for Store Fixtures.....		\$600.00
Motor Truck	2,850.00	
Reserve for Motor Truck.....		412.50
Office Equipment	1,850.00	
Reserve for Office Equipment.....		140.00
Cash	2,200.48	
Accounts Receivable	27,266.49	
Notes Receivable	325.00	
Merchandise Inventory, March 31, 1918.....	12,428.50	
Mortgage Payable		10,000.00
Accounts Payable		17,920.80
G. W. Moody, Capital.....		43,000.00
G. W. Moody, Personal.....	600.00	
Sales		48,103.48
Sale Returns	1,740.60	
Purchases	33,460.20	
Purchase Returns		2,450.10
Freight In	385.90	
Selling Expense	6,363.54	
General Administrative Expense.....	2,840.00	
Discounts on Purchases.....		1,338.40
Delivery Expense	818.00	
Discounts on Sales.....	969.44	
Insurance Unexpired	35.60	
Garage Supplies	122.20	
Rent Expense	550.00	
Rent Income		550.00
Maintenance of Real Estate.....	459.33	
	<u>\$124,515.28</u>	<u>\$124,515.28</u>
Merchandise Inventory, September 30, 1918.....		\$14,260.28

Required:

- (a) Working sheet.
- (b) Make journal entries to place the following adjustments on the books:
 1. The building included in the Real Estate account cost \$20,000 and was finished and occupied August 1, 1918. Compute depreciation at the rate of two per cent per annum.
 2. Estimated depreciation of motor truck for this year 25%.
 3. Estimated depreciation of office equipment 10% per annum.
 4. Estimated depreciation of store fixtures 10% per annum.
 5. An I O U for \$50, which has been carried as cash for the past two months is considered worthless.
 6. Close Garage Supplies into Delivery Expense.
 7. It is estimated that the motor truck has been used to haul goods from the freight depot to the store about one quarter of the time (Debit "Hauling Inward").
 8. The Mortgage Payable is dated August 1, 1918, interest payable semi-annually at 6%. Place on the books the interest accrued.

9. Close Maintenance of Real Estate into Rent Income.

10. Distribute the rent expense 25% to General Administrative Expense and 75% to Selling Expense.

11. Provide for loss on uncollectable accounts by reserving an amount equal to one quarter of 1% of the net sales as of September 30.

Some of the above adjustments are permanent, while others may be reversed at the beginning of the new period. Designate, by checking, the adjusting entries that may be reversed.

Comments:

Observe that although Mr. Moody owns the building in which he does business, he charges Rent Expense and credits Rent Income for a fair rental. This procedure does not affect the net profit but it increases the operating expenses to cover the use of the building.

EXERCISE NO. 115

PARTNERSHIP PROBLEMS

No. 1. A, B, and C are partners under an agreement to invest \$20,000 each. Excess contributions are to draw interest and deficits are to be charged interest at 6%. A invests \$15,000; B, \$20,000; and C, \$25,000.

It is also agreed that all drawings in excess of salary shall be charged interest at 6%. The drawings in excess of salary were as follows:

A—\$300	March 29, 1917	B—\$150	April 1, 1917
300	Oct. 20, 1917	300	July 10, 1917
100	Dec. 31, 1917	100	Dec. 10, 1917

The books are closed December 31, 1917, business period one year. Compute interest due to or from each partner. (Actual number of days, 30 days to a month, decimal method.)

No. 2.

A—Capital		A—Personal
Jan. 1, \$18,000	Feb. 1, \$175	Jan. 1, \$100
	April 1, 100	
	June 1, 200	
B—Capital		B—Personal
Jan. 1, \$16,000	Mar. 1, \$160	
	May 1, 150	
	June 1, 100	

The above accounts show the investments and drawings of A and B. The net profit \$6,800 is to be divided according to the average investment. Books closed June 30. Make journal entries disposing of the net profit between the partners. (Kester, page 281.)

No. 3. The firm of Atwood and Smith enter into an agreement with Robert Brewer whereby Mr. Brewer is to acquire by purchase one-half of the business for \$150,000. Mr. Brewer has turned over 650 shares of the Northeastern R. R. stock now selling at \$92 per share and pays the balance of the \$150,000 in cash. The agreement provides that the assets and liabilities of Atwood and Smith are to be taken over at their book value and that the good will of the business is valued at \$40,000. Atwood's net investment is \$70,000 and Smith's net investment is \$40,000. According to the original agreement, the profits or losses are to be shared in the proportion of five-eighths to Atwood and three-eighths to Smith.

Make journal entry or entries to bring on to the books the railroad stock, cash, good will and capital account of the new partner.

No. 4. January 1, 1918, Messrs. Haines and Ditson have agreed to sell one-third of their business to Paul M. Foss. Foss has turned over to Haines and Ditson a note for \$40,000 made by the Thorp Mfg. Co. in his favor, dated December 21 at three months and bearing interest at seven per cent; also a note made by Hayden & Morse payable to Foss for \$20,000, dated January 1, 1918 and payable in 60 days. Foss is to receive credit for the accrued interest and pays the balance in cash \$10,000. According to a balance sheet dated December 31, 1917, Haines net investment was \$60,171.10 and Ditson's was \$60,000.

Make Journal entry or entries to place the good will on the books and to open Foss' Capital account. Credit Foss for the accrued interest. Haines and Ditson share equally in the gains or losses.

EXERCISE NO. 116
PARTNERSHIP PROBLEMS

Write the answer to each question distinctly and separated from the work.

1. "When interest is not allowed on partners' capital the investments being equal and the profits shared unequally, that partner loses who is entitled to the smaller share of the profits."

Prove the above statement by (a) showing accounts with the partners when interest is not allowed and (b) showing the partners' accounts when interest is allowed at 6%; also indicate which partner has lost and how much. Use the following figures in your demonstration:

A and B invest \$20,000 each. The business period is one year. Without allowing interest the net profit is \$9,000, 2/3 of which goes to A and 1/3 to B.

2. In the same manner as in No. 1 demonstrate that when interest is not allowed, the partners' investments being unequal and profits shared equally, that partner loses who has the larger investment.

A's investment \$25,000.

B's investment \$15,000.

Profits shared equally.

Net profit without allowing interest \$9,000.

3. It follows that when interest is not allowed the only circumstances under which neither partner would lose would be in the case of profits being shared in proportion to investments with proportionate drawings made at the same time. Demonstrate the above statement using the following information:

A's investment \$12,000.00.

B's investment \$8,000.00.

A draws \$600 and B draws \$400, on the same date, six months before the closing of the books.

Net profit \$3,000 (without interest) to be shared in the same proportion as their investments.

Show partners' accounts both with and without interest.

4.

	C—Capital		C—Personal
Dr.	Cr.	Dr.	Cr.
	Jan. 1, \$25,000	Feb. 28, \$250	
	Mar. 1, 3,000	Mar. 31, 150	
		May 31, 200	
Dr.	Cr.	Dr.	Cr.
Apr. 1, \$2,000	Jan. 1, \$26,000	Feb. 28, \$300	
		Apr. 30, 200	
		May 31, 100	
		June 30, 50	

Business period six months ending June 30.

Net profit \$7,800.

Find each partner's average investment (Use month-dollars method).

Divide the net profit between the partners according to the average investments.

5. January 1, 1918, the firm of Harper and Johnson feeling the need of more capital in their business have entered into an agreement with H. B. Ballard whereby Mr. Ballard is to acquire by purchase a one-half interest in the business for \$75,000, his contribution to constitute one-half of the capital of the new concern. Mr. Ballard has turned over to Messrs. Harper & Johnson cash \$35,000 and four notes of \$10,000 each in his favor. The notes bear interest at 7%, are dated Jan. 1, 1918, and mature in 2, 4, 6, and 8 months respectively. The assets and liabilities of Messrs. Harper and Johnson are to be considered at their book figures and the good will is valued at \$15,000.

Make entries to place the good will, cash, notes, and Mr. Ballard's capital on the books.

EXERCISE NO. 117

PARTNERSHIP

No. 1. I. W. Kelley sells one-half of his business to Peter Lee for \$31,500 cash. The excess of cash paid by Lee over and above one-half of Kelley's capital is equal to one-half of two years' average profits less 6% on the capital invested. On this basis the total good will is valued by Kelley at \$18,000. The cash received by Kelley is not to form a part of the capital of the new concern. The following balance sheet was used as a basis for negotiations:

I. W. KELLEY

Balance Sheet

Assets	\$60,000	Liabilities	\$15,000
		Kelley's Capital.....	45,000
	<hr/>		<hr/>
	\$60,000		\$60,000
	<hr/>		<hr/>

Required:

- (a) Journal entry to bring the good will on to the books.
- (b) Kelley's capital account after good will is added.
- (c) Journal entry to place Lee's capital account on the books.
- (d) Balance sheet of Kelley and Lee.

No. 2. Goodwin and Haven agree to sell a one-third interest in their business to A. C. Gilman. The good will is considered to be worth a two years' purchase of the average yearly profit of the years 1914, 1915, and 1916, less 6% interest on capital invested.

Net Profit	Capital Invested
1914—\$7,250	1914—\$40,000
1915— 8,500	1915— 45,000
1916—10,000	1916— 50,000

GOODWIN AND HAVEN

BALANCE SHEET DECEMBER 31, 1916

Cash	\$5,000	Liabilities	\$20,000
Other Assets	65,000	Goodwin, Capital	30,000
		Haven, Capital	20,000
	<hr/>		<hr/>
	\$70,000		\$70,000
	<hr/>		<hr/>

The good will is to be divided between Goodwin and Haven in the same proportion as their investments. Gilman's investment is to be added to the capital of the firm.

What is the investment of each of the three partners after the transaction is completed?

No. 3. G. W. Carter has agreed to admit F. W. Frisbee as an equal partner upon payment of \$40,000 which is to constitute a part of the capital of the new concern. Mr. Carter has assets \$75,000 and liabilities \$40,000.

Make journal entries required for the deal.

No. 4. Assuming that in the above problem Carter had sold one-half of his business to Frisbee upon payment of \$20,000 which was to be converted to his own use by Carter, make all the journal entries necessary to bring on the good will and to place Frisbee on the books as a partner. It is also assumed that the books formerly used by Carter are to be used by the new firm.

EXERCISE NO. 118

No. 1. Compute the inward freight which is omitted from the following information: Net Sales \$149,290.58; Inventory of March 31, 1917, \$18,441.62; Purchases \$132,580.91; Purchase Returns \$1,719.67; Inventory of September 30, 1917, \$19,250.33; Gross Profit on Sales \$18,924.53.

No. 2. It is desired to arrive approximately at the net profit of a business without making a physical inventory. Assuming that the gross profit on sales will average 36% of the net sales make a profit and loss statement from the following information taken from the books June 30, 1917: Inventory December 31, 1916, \$12,428.50; Sales \$46,362.88; Purchases \$31,010.10; Freight Inward \$385.90; Hauling Inward \$254.58; Selling Expense \$6,882.29; Discounts on Purchases \$1,338.40; Interest on Notes Receivable \$24; General Administrative Expense \$3,023.75; Discounts on Sales \$964.44; Delivery Expense \$763.75; Interest on Mortgage Payable \$150; Loss on Bad Accounts \$165.91; Accounts Payable \$84,740.22.

No. 3. A trial balance is found to have a debit footing of \$17,968.57 and a credit footing of \$18,271.37. Upon investigation the following errors are disclosed:

A purchase amounting to \$521.25 has been debited to a creditor as \$512.25; the debit side of an entry providing for depreciation of motor truck \$252, has not been posted; the total of sales returns book was footed \$5 short; and a discount allowed to a customer of \$25.40 was posted to the wrong side of the Merchandise Discount account.

State exactly how you would correct the above errors on the books, giving entries if any; also give figures and footings of the corrected trial balance. It is assumed that controlling accounts are kept.

EXERCISE NO. 119

Trial Balance of Sterling and Price, June 30, 1918

Real Estate	\$32,000.00	
Reserve for Depreciation of Buildings.....		\$960.00
Furniture and Fixtures.....	1,520.00	
Reserve for Depreciation of Furniture and Fixtures.....		100.00
Auto Truck (for delivery)	1,500.00	
Reserve for Depreciation of Auto Truck		150.00
Cash	3,185.60	
Accounts Receivable	11,703.10	
Notes Receivable	750.00	
Inventory December 31, 1917	16,995.40	
Mortgage Payable		15,500.00
Accounts Payable		3,160.20
J. E. Sterling, Capital		22,000.00
O. E. Price, Capital		18,000.00
Purchases	37,919.60	
Purchase Returns		1,000.00
Sales		52,533.83
Sale Returns	840.30	
Salaries of Salesmen	2,466.96	
Office Salaries	720.00	
Store Expense (General).....	245.90	
Management Expense	1,400.00	
Office Expense	115.50	
Delivery Expense	970.00	
Real Estate Expense	605.00	
Cash Discount on Sales	1,030.00	
Cash Discount on Purchases		1,090.20
Interest on Mortgage Payable	310.00	
Loss on Bad Accounts	216.87	
	<u>\$114,494.23</u>	<u>\$114,494.23</u>

Required:

- (a) Ledger accounts.
- (b) Working Sheet with 10 columns: Trial Balance (2), Adjustments (2), Adjusted Trial Balance (2), Profit and Loss (2), Balance Sheet (2).
- (c) Profit and loss statement.
- (d) Balance sheet.
- (e) Adjusting and closing journal entries with full explanations.
- (f) Post journal entries into ledger and rule off accounts that balance.

General Information:

Inventory of merchandise on hand June 30, 1918, \$15,286.94.

The building is valued at \$20,000. Provide for depreciation at the rate of 3% per annum.

The Furniture and Fixtures account covers the equipment of both office and store. Store equipment is valued at \$1,000 and the office equipment at \$520. Depreciation is estimated to be 10% per annum.

The depreciation of the auto truck for the current year is considered to be 20%.

Reserve \$100 for estimated loss on accounts receivable as of June 30, 1918.

At the closing of the books four days' salary is due to employees. The salaries of salesmen amount to

\$94.88 per week. Salary of bookkeeper, who is also the stenographer, is \$20 per week. Salary of chauffeur \$18 per week.

The mortgage payable, \$15,500, is on the real estate; is dated November 1, 1917, and the interest payable in equal semi-annual payments, is at 6%. The last interest was paid May 1, 1918. (Compute interest for even months.)

The balance of the Notes Receivable account consists of one note dated April 13, 1918, at three months and bears interest at 7%. Bring the interest accrued on to the books.

Number each adjustment on the working sheet by placing a very small circle, with the number inside, on the left of each amount. Give the same number to the corresponding journal entry.

The partners agree to divide the profit or share the losses in the same proportion as their investments bear on the trial balance of June 30, 1918.

Mr. Sterling decides to allow his investment to remain unchanged and wishes his share of the profits carried into a "current" account. Mr. Price wishes you to credit \$2,000 of his share of the net profit to his capital account and the balance, if any, to the "current" account.

EXERCISE NO. 120
ADJUSTING ENTRIES

In the following adjustments it is assumed that the necessary Reserve accounts are already on the books.

- No. 1. A desk which cost \$60 has been sold for \$10. (Value 5)
- No. 2. Salesroom equipment to the amount of \$482 has been worn out or discarded during the past year. (Value 5)
- No. 3. A machine which cost \$3,000 has been discarded and sold for \$60. A new machine was purchased at a cost of \$3,500. (Value 10)
- No. 4. An old auto truck which cost \$1,700, and \$1,250 in cash were given for a new truck priced at \$1,800. (Value 15)
- No. 5. A concern needing a larger safe purchased one for \$400 and the old safe which cost \$200 was sold for \$50. The bookkeeper debited Purchases and credited Cash for the new safe, and debited cash and credited Expenses for the amount received for the old safe. Make entries to correct the errors and to place the transactions properly on the books. (Value 15).
- No. 6. An examination of a set of books disclosed the following: New office equipment costing \$675 was debited to Office Expense; a new wagon costing \$250 was debited to Delivery Expense and Office Furniture costing \$72 became useless and was charged to Profit and Loss at \$72. Make entries to correct errors. (Value 15)
- No. 7. It is decided to sell the delivery equipment which cost \$4,560, and to hire the service hereafter. On April 30, 1918, the outfit was sold for \$2,850 cash. The books were closed December 31, 1917, when 10% of the cost was added to the Reserve for Depreciation account making the available reserve \$4,000. Make entries providing for the depreciation, four months, since the books were closed and to close the reserve and equipment accounts. Business period one year. (Value 20)
- No. 8. The Reserve for Discount account has a credit balance of \$1,500 which is considered too large and at the end of the period instead of adding to the reserve it is decided to reduce it to \$500. (Value 5)
- No. 9. An ell was added to a business building. The bookkeeper charged the cost \$3,500 to Building Repairs. Correct the error. (Value 5)
- No. 10. An explosion shattered the window glass in a portion of a building. The bookkeeper charged the cost, \$500, to the building. Correct error. (Value 5)

EXERCISE NO. 121

Evert and Williams

Trial Balance, June 30, 1919, Before Adjusting Entries Are Made

Cash	\$5,240.05	
Accounts Receivable	116,935.00	
Notes Receivable	1,844.00	
Mdse. on hand, December 31, 1918.....	114,862.24	
Land	20,625.00	
Buildings	24,000.00	
Office Equipment	3,954.75	
Delivery Equipment	2,681.20	
Accounts Payable		\$111,625.87
Notes Payable		60,000.00
J. T. Evert, Capital		100,000.00
J. T. Evert, Drawing Account	1,300.00	
W. B. Williams, Capital		50,000.00
W. B. Williams, Drawing Account	1,280.00	
Sales		696,219.28
Sales Returns and Allowances	2,100.00	
Purchases	620,213.30	
Purchase Returns and Allowances		124.90
General Administrative Expense	23,572.25	
Selling Expense	67,564.12	
Delivery Expense	2,098.00	
Cash Discount on Sales	11,459.26	
Cash Discount on Purchases		2,589.63
Interest	830.51	
	<u>\$1,020,559.68</u>	<u>\$1,020,559.68</u>
Merchandise Inventory, June 30, 1919.....		\$162,864.51

Depreciation of Buildings, 2% per annum.

Depreciation of Office Equipment, 10% per annum.

Depreciation of Stable Equipment, 10% per annum.

Charge 30% of delivery expense to Hauling Inward.

DRAWINGS IN EXCESS OF SALARY

Date	J. T. Evert	W. B. Williams
January 1, 1919	\$200	
February 3		\$180
March 5	425	
April 28		350
May 10	360	
June 3		258
June 20	315	
June 21		492

Interest at 5% is to be allowed on investments of partners, (debit "Interest on Capital" for even months) and interest at 6% is to be charged on drawings from date of withdrawal to June 30, 1919. Compute the actual number of days between those dates, divide the result by 30 to reduce to months and days and figure interest by "Decimal Method." (Credit "Interest on Drawings.")

No postings have been made to the capital accounts during the current period.

It is agreed between the partners that their respective investments shall remain unchanged and that items relating to interest on drawings and capital, as well as the division of profit or loss, shall be posted to their respective drawing accounts.

After the interest on drawings and capital has been adjusted the profit or loss is to be divided between the partners as follows :

J. T. Evert—two-thirds
W. B. Williams—one-third

Set up suitable accounts for depreciation reserves. Reserve $\frac{1}{2}$ of 1% of Net Sales to provide for loss on uncollectable accounts.

Both Evert and Williams have drawn a salary each month which has been charged to general administrative expense. The excess of drawings over salary allowed has been charged to their drawing accounts.

Use "Trading Account" in closing entries.

Required:

- (a) Read and understand every word on the problem sheets before beginning the work.
- (b) Transfer balances from trial balance to ledger accounts on ledger paper not more than five accounts to a page. In the ledger use the letters T. B. as a post-mark for such balances.
- (c) Working sheet, ten columns, with adjustments numbered.
- (d) Profit and loss statement.
- (e) Balance sheet.
- (f) Adjusting and closing journal entries with full explanations using "Trading Account" in closing entries.
- (g) Post adjusting and closing entries into the ledger in regular form, no detail omitted, and rule off the accounts that balance.

TEST ON FUNCTIONS OF ACCOUNTS

Arrange functions of accounts after the following form:

Salaries and Wages Accrued

Debit:		Credit:
At the beginning of each period, etc., etc.		At the end of each period, etc., etc.

The balance of the account represents wages and salaries accrued but not paid and should be shown as a current liability on the Balance Sheet.

Give functions of the following accounts, using the method to which you have been accustomed:

- | | |
|--|------------------------|
| 1. Reserve for Depreciation of Stable Equipment. | 6. Partners' Capital. |
| 2. Office Supplies on Hand. | 7. Partners' Drawings. |
| 3. Taxes Prepaid. | 8. Sales. |
| 4. Accounts Payable. | 9. Purchases. |
| 5. Interest Accrued on Mortgages Payable. | 10. Partners' Salary. |

FINAL EXAMINATION IN PRACTICAL ACCOUNTING

Arey and Walters

Trial Balance June 30, 1917 (Before Adjusting)

Cash	\$2,145.69	
Accounts Receivable	15,478.91	
Reserve for Loss on Bad Accounts.....		\$250.00
Notes Receivable	2,450.00	
Merchandise Inventory December 31, 1916 (Cost).....	20,480.90	
Office Equipment	750.00	
Store Equipment	1,580.00	
Accounts Payable		3,365.00
Notes Payable		940.00
L. P. Arey, Capital		16,000.00
L. P. Arey, Salary		350.00
J. P. Walters, Capital		14,000.00
J. P. Walters, Salary		600.00
Purchases	71,280.75	
Sales		100,490.11
Purchase Returns		660.00
Sale Returns	1,640.00	
Salaries of Salesmen	8,000.00	
Advertising	2,000.00	
Traveling Expenses	2,300.00	
Delivery Expense	850.00	
Postage for Selling Department	175.50	
Taxes on Stock	82.50	
Insurance on Stock	200.00	
Insurance on Store Equipment.....	20.00	
Rent of Store	3,000.00	
Office Salaries	1,400.00	
Office Supplies	156.40	
General Office Expense	56.90	
Management	1,500.00	

Telephone and Telegraph	79.50	
Janitor	450.00	
Discount on Sales	1,728.90	
Discount on Purchases		1,150.84
		<hr/>
	\$137,805.95	\$137,805.95
		<hr/>

Merchandise Inventory June 30, 1917..... \$22,645.91

1. Adjust the reserve for loss on bad accounts to agree with $\frac{1}{2}$ of one per cent of the net sales.
2. Accrue interest on note receivable of \$2,480 at 5%, dated May 16, 1917.
3. The store and office equipments have been used only six months. Set up a Reserve for Depreciation account for each, assuming that the equipment will last ten years.
4. It is estimated that one-quarter of the advertising is practically in advance and applies to the coming period.
5. Calculate the amount of accrued taxes on the basis of last year's rate of \$16.50 per thousand on \$20,000. It is also agreed that the net gain or loss shall be divided between the partners in the same proportion as their investments as shown on the trial balance of June 30, 1917.

Required:

- (a) Profit and loss statement.
- (b) Balance sheet.
- (c) Adjusting entries.
- (d) Closing entries (using "Trading" account).

FINAL EXAMINATION IN THEORY OF ACCOUNTS

Answer questions 1, 2, 3, 4, and 5. Answer any five of the remaining questions. Only the first ten answers will be graded.

1. At the beginning of a fiscal year (business period) the firm of Brown and Bentley decide to sell their delivery equipment and to hire the service. The equipment which cost \$8,000 and on which there is a reserve for depreciation of \$6,000, was sold for \$3,000. Make journal entries for the transaction and to close out the reserve.

2. Find rate of turnover and the per cent of gross profit on sales to net sales from the following information:

Operating Expenses	\$8,920	Inventory January 1, 1917.....	\$6,480
Sales	48,000	Inventory December 31, 1917.....	5,240
Accounts Receivable	26,000	Accounts Payable	16,000
Purchases	25,000	Freight Outward	480
Real Estate	8,000	Sale Returns	3,400
Purchase Returns	1,000	Notes Receivable	2,000
		Freight Inward	1,345

3. You have discounted Casey and Sheldon's note for \$2,000 at your bank. Give journal form of entries which should be made in case the note is not paid by the maker at maturity.

4. If a business does not provide for depreciation of equipment what would be the effect on the net profit and net capital? Explain fully.

5. If "Office Supplies on Hand" on the balance sheet is increased in amount, what account on the profit and loss statement is directly affected and how? (To say that it will increase or diminish the net profit or loss will not be considered an adequate answer.)

6. What should be done to ascertain whether or not closing journal entries have been provided to close all accounts that should be closed?

7. Give two reasons for decrease in value of equipment.

8. Is interest accrued on notes receivable an asset? Why?

9. When a business is sold for more than the value of the net assets how is the good will divided between the partners?
10. What is a controlling account and what are the advantages of its use?
11. Should a partner's salary be charged to an expense account? Why?
12. Make a statement to account for the difference existing between your check book balance and the balance as per the statement rendered to you by the bank.

FINAL EXAMINATION IN THEORY OF ACCOUNTS

1. What is the effect on the Profit and Loss Statement, if any, caused by the following conditions?
 - (a) An increase of assets.
 - (b) An increase of liabilities.
 - (c) A decrease of assets.
 - (d) A decrease of liabilities.
 - (e) Delivery equipment purchased for cash.
2. What is an "Imprest Fund" and how is it operated and posted?
3. What is a "Deferred Charge to Profit and Loss"? State whether it belongs on the balance sheet of profit and loss statement. Give two examples.
4. A's capital, January 1, was \$10,000. On the following December 31 his balance sheet showed a net profit of \$3,000 which he has not withdrawn and he sold out to B for \$15,000. (A) Give entry placing good will on A's books. (B) Would B in opening his books treat it as an asset or as a liability?
5. A customer gives you a note for \$1,000 dated June 1, due in 6 months and bearing interest at 6%. On July 10 you get the note discounted at your bank, discount rate 6%. Give cash book entries for discounting the note, assuming you are keeping a four-column cash book.
6. Assuming that you use a "Notes Receivable Discounted" account, make the entry that would be required when the bank notified you that the note mentioned in question No. 5 was paid by the maker at maturity.
7. You sell real estate for \$16,000 which cost \$13,000. \$5,000 has been reserved in former periods on the buildings. Make journal entries for the sale of the real estate and disposal of the reserve.
8. If a concern having a large amount of equipment does not provide for depreciation and obsolescence, what would be the result? Explain how this result is brought about.
9. Net Sales \$73,086.89, inventory January 1, \$12,149.60, net purchases \$52,259.82, inventory December 31, \$12,248.60. Find rate of turnover and percentage of gross profit to net sales.
10. (a) Equipment costing \$4,000 was discarded by a concern which used a modern system of accounting. Make journal entry. (b) Several months after the above entry was made the discarded equipment was sold for \$820.00 and the clerk debited cash and credited delivery expense \$820. Make journal entry to correct the error.

EXERCISE F (MODEL)

E. P. Mason

Trial Balance, December 31, 1918

Cash	\$3,468.90	
Accounts Receivable	6,126.70	
Merchandise Inventory, December 31, 1917.....	14,874.20	
Land and Buildings.....	8,126.40	
Furniture and Fixtures.....	592.00	
Auto Truck	2,000.00	
Accounts Payable		\$9,849.60
Notes Payable		1,626.40
E. P. Mason, Capital.....		18,846.31
E. P. Mason, Personal.....	3,842.00	
Purchases	50,095.42	
Freight Inward	1,825.00	
Purchase Returns		1,240.00
Sales		78,090.80
Sale Returns	250.60	
Delivery Expense	2,825.80	
Selling Expense	10,196.20	
Administrative Expense	5,025.00	
Interest on Notes Receivable.....		14.71
Discount on Purchases		1,035.00
Interest on Notes Payable.....	35.60	
Discounts on Sales.....	1,249.00	
Loss on Bad Accounts.....	170.00	
	<u>\$110,702.82</u>	<u>\$110,702.82</u>
Inventory of merchandise on hand December 31, 1918		<u>\$11,218.60</u>

Required:

- (a) Profit and loss Statement.
- (b) Balance sheet.
- (c) Closing entries.

Mr. Mason wishes his net profit credited to his personal account.

E. P. MASON

Working Sheet—One Year Ending December 31, 1918

	Trial Balance		Profit and Loss		Balance Sheet	
	Dr.	Cr.	Expenses	Income	Assets	Liabilities
Cash	\$3,468.90				\$3,468.90	
Accounts Receivable	6,126.70				6,126.70	
Merchandise Inventory, December 31, 1917	14,874.20		\$14,874.20			
Land and Buildings	8,126.40				8,126.40	
Furniture and Fixtures	592.00				592.00	
Auto Truck	2,000.00				2,000.00	
Accounts Payable		\$9,849.60				\$9,849.60
Notes Payable		1,626.40				1,626.40
E. P. Mason, Capital		18,846.31				18,846.31
E. P. Mason, Personal	3,842.00				3,842.00	
Purchases	50,095.42		50,095.42			
Freight Inward	1,825.00		1,825.00			
Purchase Returns		1,240.00		\$1,240.00		
Sales		78,090.80		78,090.80		
Sale Returns	250.60		250.60			
Delivery Expense	2,825.80		2,825.80			
Selling Expense	10,196.20		10,196.20			
Administrative Expense	5,025.00		5,025.00			
Interest on Notes Receivable		14.71		14.71		
Discount on Purchases		1,035.00		1,035.00		
Interest on Notes Payable	35.60		35.60			
Discounts on Sales	1,249.00		1,249.00			
Loss on Bad Accounts	170.00		170.00			
Merchandise Inventory, December 31, 1918				11,218.60	11,218.60	
Net Profit			5,052.29			5,052.29
	\$110,702.82	\$110,702.82	\$91,599.11	\$91,599.11	\$35,374.60	\$35,374.60

Exercise F Model —Working Sheet

E. P. MASON

Balance Sheet, December 31, 1918

ASSETS

Current Assets:		
Cash	\$3,468.90	
Accounts Receivable	6,126.70	
Merchandise Inventory	11,218.60	
	<hr/>	
Total Current Assets.....		\$20,814.20
Fixed Assets:		
Land and Buildings	8,126.40	
Furniture and Fixtures	592.00	
Auto Truck	2,000.00	
	<hr/>	
Total Fixed Assets		10,718.40
		<hr/>
Total Assets		\$31,532.60
	<hr/>	<hr/>

LIABILITIES AND CAPITAL

Current Liabilities:		
Accounts Payable	\$9,849.60	
Notes Payable	1,626.40	
	<hr/>	
Total Liabilities		\$11,476.00
Capital:		
E. P. Mason Investment December 31, 1917.....	\$18,846.31	
Net Profit December 31, 1917 to December 31, 1918.....	\$5,052.29	
Deduct:		
Drawings December 31, 1917 to December 31, 1918.....	3,842.00	1,210.29
	<hr/>	<hr/>
Total		\$31,532.60
	<hr/>	<hr/>

Exercise F (Model) Balance Sheet.

E. P. MASON

Profit and Loss Statement December 31, 1917 to December 31, 1918

Gross Sales		\$78,090.80	
Less:			
Returned Sales		250.60	
		<hr/>	
Net Sales			\$77,840.20
Deduct:			
Cost of Goods Sold:			
Inventory of December 31, 1917.....	\$14,874.20		
Purchases	\$50,095.42		
Less:			
Returned Purchases	1,240.00		
Net Purchases	48,855.42		
Freight Inward	1,825.00	\$65,554.62	
		<hr/>	
Deduct:			
Inventory of December 31, 1918.....		11,218.60	54,336.02
		<hr/>	<hr/>
Gross Profit on Sales.....			\$23,504.18
Deduct:			
Operating Expenses:			
Delivery Expense		\$2,825.80	
Selling Expense		10,196.20	
Administrative Expense		5,025.00	18,047.00
		<hr/>	<hr/>
Net Profit from Operations.....			\$5,457.18
Add:			
Other Income:			
Interest on Notes Receivable.....		\$14.71	
Discounts on Purchases		1,035.00	1,049.71
		<hr/>	<hr/>
Total Income			\$6,506.89
Deduct:			
Other Charges:			
Interest on Notes Payable.....		\$35.60	
Discounts on Sales		1,249.00	
Loss on Bad Accounts.....		170.00	1,454.60
		<hr/>	<hr/>
Net Profit December 31, 1917 to December 31, 1918.....			\$5,052.29
		<hr/>	<hr/>

Exercise F (Model) Profit and Loss Statement

CLOSING JOURNAL ENTRIES, DECEMBER 31, 1918

Sales	\$250.60	
Sale Returns		\$250.60
To transfer sales returned to Sales account and to close the Sale Returns account.		
	31	
Purchases	14,874.20	
Merchandise Inventory (December 31, 1918).....		14,874.20
To transfer inventory at beginning of period to Purchases account and to close the Inventory account.		
	31	
Purchase Returns	1,240.00	
Purchases		1,240.00
To transfer the purchases returned to Purchases account and to close the Purchase Returns account.		
	31	
Purchases	1,825.00	
Freight Inward		1,825.00
To transfer sales returned to Sales account and to close the Sale Returns Inward account.		
	31	
Merchandise Inventory	11,218.60	
Purchases		11,218.60
To reopen the Merchandise Inventory account and to deduct the unsold goods from the entire cost of goods purchased.		
	31	
Sales	54,336.02	
Purchases		54,336.02
To transfer the cost of goods sold to the Sales account and to close the Purchases account:		
Inventory 12-31-17.....	\$14,874.20	
Net purchases	48,855.42	
Freight Inward	1,825.00	
	\$65,554.62	
Deduct:		
Inventory 12-31-18	11,218.60	
Cost of Goods Sold.....	\$54,336.02	
	31	
Sales	23,504.18	
Profit and Loss.....		23,504.18
To transfer the gross profit on sales to the Profit and Loss account and to close the Sales account.		
	31	
Profit and Loss.....	18,047.00	
Delivery Expense		2,825.80
Selling Expense		10,196.20
Administrative Expense		5,025.00
To transfer the accounts showing operating expense to Profit and Loss and to close the Operating Expense account.		

31

Interest on Note Receivable.....	14.71	
Discount on Purchases	1,035.00	
Profit and Loss.....		1,049.71
To transfer the accounts with other income to Profit and Loss account and to close the other income accounts.		

31

Profit and Loss.....	1,454.60	
Interest on Notes Payable.....		35.60
Discount on Sales		1,249.00
Loss on Bad Accounts.....		170.00
To transfer the accounts showing other charges to Profit and Loss account and to close the accounts with other charges.		

31

Profit and Loss.....	5,052.29	
E. P. Mason, Personal Account.....		5,052.29
To close the Profit and Loss account and to transfer the net profit for the period to E. P. Mason Personal account.		

Exercise F (Model) Closing Entries

E. P. MASON

Profit and Loss Statement, December 31, 1917, to December 31, 1918

Gross Sales			\$78,090.80	
Less:				
Returned Sales		\$250.60		
Discounts on Sales.....		1,249.00	1,499.60	
			<u> </u>	
Net Sales				\$76,591.20
Deduct Cost of Goods Sold:				
Inventory of December 31, 1917.....		\$14,874.20		
Purchases	\$50,095.42			
Less:				
Returned Purchases	\$1,240.00			
Discounts on Purchases.....	1,035.00			
		<u> </u>	2,275.00	
Freight Inward			47,820.42	
			<u> </u>	
			1,825.00	
				\$64,519.62
Less:				
Inventory, December 31, 1918.....				11,218.60
				<u> </u>
Gross Profit on Sales				\$23,290.18
Deduct:				
Operating Expenses:				
Delivery Expense			\$2,825.80	
Selling Expense			10,196.20	
Administrative Expense			5,025.00	18,047.00
			<u> </u>	<u> </u>
Net Profit from Operations.....				5,243.18
Add:				
Other Income:				
Interest on Notes Receivable.....				14.71
Total Income				\$5,257.89
Deduct:				
Other Charges:				
Interest on Notes Payable.....			\$35.60	
Loss on Bad Accounts.....			170.00	205.60
			<u> </u>	<u> </u>
				\$5,052.29
			<u> </u>	<u> </u>

Exercise F (Model)—Profit and Loss Statement Conforming to the Federal Tax Income Law

STERLING AND PRICE
Balance Sheet—June 30, 1918

ASSETS

Fixed Assets:		
Real Estate	***** **	
Less Reserve for Depreciation.....	***** **	***** **
<hr/>		
Furniture and Fixtures.....	*** **	
Less Reserve for Depreciation.....	*** **	**** **
<hr/>		
Auto Truck	***** **	
Less Reserve for Depreciation.....	*** **	**** **
<hr/>		
Total Fixed Assets		***** **
<hr/>		
Current Assets:		
Cash		**** **
Accounts Receivable	***** **	
Less Reserve for Bad Debts.....	** **	***** **
<hr/>		
Notes Receivable		*** **
Interest Accrued on Notes Receivable.....		** **
Merchandise Inventory		***** **
<hr/>		
Total Current Assets		***** **
<hr/>		
Total Assets		***** **

LIABILITIES AND CAPITAL

Fixed Liabilities:		
Mortgage Payable	***** **	
Total Fixed Liabilities.....		***** **
Current Liabilities:		
Accounts Payable	**** **	
Salaries Accrued	** **	
Interest Accrued on Mortgage Payable.....	*** **	
<hr/>		
Total Current Liabilities.....		*** **
J. E. Sterling, Capital:		
Balance, December 31, 1917.....	***** **	
Eleven-twentieths Net Profit.....	***** **	
<hr/>		
Balance, June 30, 1918.....		***** **
O. E. Price, Capital:		
Balance, December 31, 1917.....	***** **	
Nine-twentieths Net Profit.....	***** **	
<hr/>		
Balance, June 30, 1918.....		***** **
<hr/>		
		***** **

FORM OF BALANCE SHEET TO BE USED WITH EXERCISE NO. 121

EVERT AND WILLIAMS

Balance Sheet, June 30, 1918

ASSETS

Current Assets:

Cash		**** **
Accounts Receivable	***** **	
Less Reserve for Bad Debts.....	**** **	***** **
Notes Receivable		**** **
Merchandise Inventory (cost).....		***** **

Total Current Assets ***** **

Fixed Assets:

Real Estate	***** **	
Less Reserve for Depreciation of Buildings	*** **	***** **
Office Equipment	**** **	
Less Reserve for Depreciation.....	*** **	**** **
Delivery Equipment	**** **	
Less Reserve for Depreciation.....	*** **	**** **

Total Fixed Assets ***** **

***** **

LIABILITIES AND CAPITAL

Current Liabilities:

Accounts Payable		***** **
Notes Payable		**** **

Total Current Liabilities..... ***** **

J. T. Evert's Capital:

Balance, December 31, 1917..... ***** **

Add:

Interest on Investment, Six Months at 5% per annum	**** **	
Two-thirds Net Profit for the Period.....	**** **	***** **

Deduct:

Drawings in Excess of Salary during Six Months ending June 30, 1918	**** **	
Interest on Drawings.....	** **	**** **

Balance, June 30, 1918..... ***** **

W. B. Williams's Capital:

Balance, December 31, 1917..... ***** **



MODEL BALANCE SHEET

JOHN B. THOMAS

BALANCE SHEET DECEMBER 31, 1919.

Assets			
Current Assets:			
Cash			\$3,209.80
Accounts Receivable	\$41,060.90		
Less:			
Reserve for Bad Debts.....	\$3,235.		
Reserve for Discounts	1,120.	4,355.00	36,705.90
Notes Receivable			1,450.00
Interest accrued on Notes Receivable.....			48.50
Merchandise Inventory (cost)			13,829.70
Total Current Assets			\$55,243.90
Fixed Assets:			
Real Estate	44,000.00		
Less Reserve for Depreciation of Buildings.....	3,900.00	40,100.00	
Store Equipment	3,700.00		
Less Reserve for Depreciation.....	900.00	2,800.00	
Office Equipment	1,221.44		
Less Reserve for Depreciation.....	360.00	861.44	
Delivery Equipment	2,000.00		
Less Reserve for Depreciation.....	500.00	1,500.00	
Total Fixed Assets			45,261.44
Deferred Charges to Profit and Loss:			
Stationery and Supplies on Hand.....			58.00
Insurance Premiums Unexpired			150.50
Advanced Advertising			1,200.00
Taxes Prepaid			620.50
Total Deferred Charges			2,029.00
Total			\$102,534.34

Liabilities and Capital

Current Liabilities:			
Accounts Payable			13,100.00
Notes Payable			1,000.00
Interest Accrued on Notes Payable			73.40
Salaries Accrued			200.00
Total Current Liabilities.....			14,373.40

Fixed Liabilities:

Mortgage Payable	5,000.00	
Total Fixed Liabilities		5,000.00

Total Liabilities		19,373.40
-------------------------	--	-----------

Capital:

John B. Thomas' Investment December 31, 1918.....		71,000.00	
Net Profit December 31, 1918 to December 31, 1919.....	12,230.94		
Less Salary Overdrawn	70.00	12,160.94	83,160.94

Total			102,534.34
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Model I



MODEL PROFIT AND LOSS STATEMENT

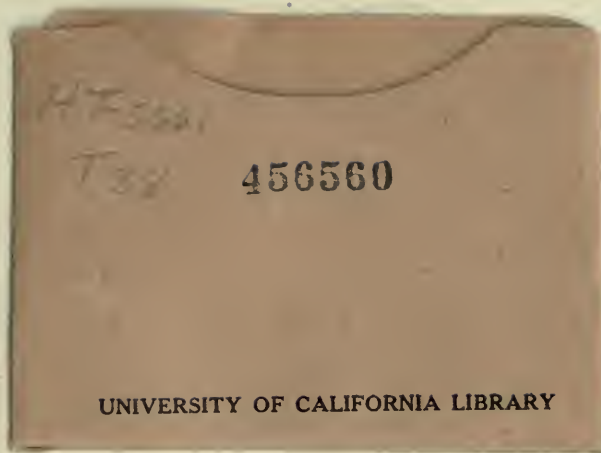
JOHN B. THOMAS

PROFIT AND LOSS STATEMENT DECEMBER 31, 1918 TO DECEMBER 31, 1919.

Gross Sales		\$110,218.70	
Less Returns		1,250.80	
		<hr/>	
Net Sales			\$108,967.90
Deduct:			
Cost of Sales:			
Inventory December 31, 1918.....	\$15,189.70		
Gross Purchases	\$70,829.70		
Less Returns	902.60	69,927.10	
		<hr/>	
Freight Inward	1,260.40	86,377.20	
		<hr/>	
Deduct:			
Inventory December 31, 1919.....		13,829.70	72,547.50
		<hr/>	
Gross Profit on Sales			36,420.40
Deduct:			
Operating Expenses:			
Selling Expenses		10,725.62	
Delivery Expenses		2,089.67	
General Administration Expenses		8,551.26	
Real Estate Expense		1,200.00	22,566.55
		<hr/>	
Net Profit from Operations			13,853.85
Add:			
Other Income:			
Discount on Purchases.....		1,891.69	
Interest on Notes Receivable		65.00	1,956.69
		<hr/>	
Total Income			15,810.54
Deduct:			
Other Charges:			
Discount on Sales		2,210.00	
Interest on Notes Payable		125.00	
Loss on Bad Accounts		1,243.60	3,578.60
		<hr/>	
Net Profit December 31, 1918 to December 31, 1919.....			<u>12,231.94</u>

Model J.

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